

# U.S. POLICY TOWARD THE PALESTINIANS IN THE POST-ARAFAT ERA

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## HEARING BEFORE THE SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS FIRST SESSION

MARCH 9, 2005

**Serial No. 109-88**

Printed for the use of the Committee on International Relations



Available via the World Wide Web: [http://www.house.gov/international\\_relations](http://www.house.gov/international_relations)

U.S. GOVERNMENT PRINTING OFFICE

99-823PDF

WASHINGTON : 2005

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WEDNESDAY, MARCH 9, 2005

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND CENTRAL ASIA,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:08 p.m. in room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (Chair of the Subcommittee) presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. Thank you so much, all of you, the panelists, the audience, and the Members, for being here this afternoon.

The departure of Yasser Arafat, a man who spent most of his life sponsoring and supporting terrorism, and the recent summit between Prime Minister Ariel Sharon and Abu Mazen, in which they stated their intention to initiate and achieve a lasting truce, prompts much optimism about the future and the potential for a lasting peace.

It serves to indicate progress in transforming President Bush's vision of a new Palestinian leadership, a leadership not compromised by terror and marketed to governing over its own people within a practicing democracy based on tolerance and liberty, into an achievable goal.

The principle, advocated until now only by the United States and Israel, that establishing the institutional viability of the Palestinian Authority (PA) as a precondition for future discussions on final status issues, is now being echoed by many in the international community. In this respect, the Palestinian Legislative Council recently asserted some independence from the executive branch and twice rejected proposed cabinets made up largely of former Arafat cronies.

This event, in particular, reflects a growing public demand both for greater accountability and for a reassessment of, at least, Palestinian tactics and strategies.

Thus, we remain optimistic about the post-Arafat period and understand the need to support the Palestinian people. Yet we must proceed with caution in expanding our assistance programs, as the Administration is requesting, to ensure that those are not manipulated to serve the interests of those who seek the destruction of Israel and its people.

In that vein, I have been working closely with the leadership to require reporting on certain critical items as part of the supple-

mental appropriations request. Items of concern that I would like our witnesses to address during their presentations include the status of reform within the Palestinian security services—their numbers, their lines of authority, accountability, and chains-of-command, and whether the PA has purged from their security services individuals with ties to terrorist entities.

Also, what specific steps have been taken by the Palestinian Authority to dismantle the terrorist infrastructure, to confiscate unauthorized weapons, to arrest and bring terrorists to justice, to destroy unauthorized arms factories, to thwart and preempt terrorist attacks, and cooperate with Israel's security services?

Also, specific actions taken by the Palestinian Authority to stop incitement in Palestinian Authority-controlled electronic and print media and in schools, in mosques, and other institutions that it controls, and, instead, promote peace and coexistence with Israel.

Also, the degree to which the Palestinian Authority has taken effective steps to ensure democracy, the rule of law, and independent judiciary, and has adopted other reforms ensuring transparent and accountable governance, and the extent to which the Palestinian Authority has been cooperating with United States officials in their investigations into Arafat's finances and the President's assessment as to whether such cooperation has been sufficient.

We also expect United States assistance in the supplemental to go to specific programs to meet the immediate needs of the Palestinian people. The United States should not be expected to write a blank check to the Palestinian Authority. The distribution of assistance must be based on the achievement of specific benchmarks and results. The PA must demonstrate sustained progress toward peace, carrying out the necessary political reforms toward accountability and transparency and, most critically, the verifiable dismantlement of all terrorist organizations.

Also, we cannot expect any cease-fire to hold if thousands of terrorists retain their weapons and explosives, free to decide at any moment that now is the time to attack Israel. For example, there were reports last week that Israeli security forces uncovered a Hamas explosives lab containing Qassam rockets ready for the launching. Fourteen Hamas operatives were arrested. Is the ability to rein in Hamas and others a question of capacity or political will?

Abu Mazen must undertake the necessary actions to develop this cease-fire into a meaningful security plan. This includes dismissing even his most trusted security officials and freezing additional accounts of terrorist organizations and financiers.

President Bush, in a speech yesterday at the National Defense University, stated:

“The United States will help the Palestinian Authority build the security services that current peace and future statehood require: Security forces which are effective, responsive to civilian control, and dedicated to fighting terror and upholding the rule of law . . . [and] will coordinate with the Government of Israel, with neighbors such as Egypt and Jordan, and with other donors to ensure that Palestinians get the training and equipment they need.”

So I ask, is the Administration considering the provision of direct security assistance to the PA? What will that assistance entail? What sort of oversight and monitoring mechanisms are being implemented to ensure that the objectives are being met? And would you argue that this assistance is vital to the national security interests of the United States, and, if so, why?

The PA must understand that assistance from the United States is not an entitlement. It needs to be earned through verifiable actions, including by addressing problems, such as incitement and anti-Semitism, which fuel the terror mentality.

International technical and financial assistance, though readily available, cannot serve as a substitute for the efforts by the Palestinian Authority to comply with its commitment to the United States, to the international community, to Israel, and, most importantly, its obligations to its own people.

We look forward to hearing the views of our panelists on how these proposed programs further U.S. goals and objectives, and we look forward to receiving detailed information on exactly how our funds are going to be used and what sort of safeguards are in place to prevent the manipulation of U.S. assistance.

I am glad to turn to the Ranking Member of our Subcommittee, Mr. Ackerman, for an opening statement.

[The prepared statement of Ms. Ros-Lehtinen follows:]

PREPARED STATEMENT OF THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIR, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA

The departure of Yasser Arafat, a man who spent most of his life sponsoring and supporting terrorism, and the recent summit between Prime Minister Ariel Sharon and Abu Mazen, in which they stated their intention to initiate and achieve a lasting truce, prompts much optimism about the future and the potential for a lasting peace.

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Items of concern that I would like our witnesses to address during their presentation include:

- the status of reform of the Palestinian security services - their numbers, lines of authority, accountability and chains of command, and whether the PA has purged from their security services individuals with ties to terrorist entities;
- specific steps taken by the Palestinian Authority to dismantle the terrorist infrastructure, confiscate unauthorized weapons, arrest and bring terrorists to justice, destroy unauthorized arms factories, thwart and preempt terrorist attacks, and cooperate with Israel's security services;

- specific actions taken by the Palestinian Authority to stop incitement in Palestinian Authority-controlled electronic and print media and in schools, mosques, and other institutions it controls, and to promote peace and coexistence with Israel;
- the degree to which the Palestinian Authority has taken effective steps to ensure democracy, the rule of law, and an independent judiciary, and has adopted other reforms ensuring transparent and accountable governance; and
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Abu Mazen must undertake the necessary actions to develop this ceasefire into a meaningful security plan. This includes dismissing even his most trusted security officials, and freezing additional accounts of terrorist organizations and financiers if need be.

In that vein, President Bush, in a speech yesterday at the National Defense University, stated that: "the United States will help the Palestinian Authority build the security services that current peace and future statehood require: security forces which are effective, responsive to civilian control, and dedicated to fighting terror and upholding the rule of law . . . (and) will coordinate with the government of Israel, with neighbors such as Egypt and Jordan, and with other donors to ensure that Palestinians get the training and equipment they need."

- Is the Administration considering the provision of direct security assistance to the PA?
- What would that assistance entail?
- What sort of oversight and monitoring mechanisms are being implemented to ensure that the objectives are being met?
- Would you argue that this assistance is vital to the national security interests of the U.S.? If so, why?

The PA must understand that assistance from the United States is not an entitlement. It needs to be earned through verifiable actions, including by addressing precursors such as incitement and anti-Semitism which fuel the terrorist mentality.

International technical and financial assistance, though readily available, cannot serve as a substitute for the efforts by the Palestinian Authority to comply with its commitments to the United States, the International community, Israel, and most importantly, its obligations to the Palestinian people.

We look forward to hearing the views of our panelists on how the proposed programs further U.S. goals and objectives, and look forward to receiving detailed information on exactly how our funds are to be used and what sort of safeguards are in place to prevent the manipulation of U.S. assistance.

I will turn to the Ranking Member of our Subcommittee, Mr. Ackerman, for an opening statement.

Mr. ACKERMAN. Thank you very much, Madam Chair. Thank you for your continued leadership in this very important arena. I want to thank you for scheduling today's hearing on our policy toward the Palestinians.

On January 9th, the world witnessed the peaceful expansion and expression of Palestinian national aspirations. By holding the freest and the fairest elections in the Arab world, it is clear that



the Palestinian people, like any people, want to choose their own destiny.

We all hope that this election will mark the beginning of a new relationship between Israelis and Palestinians and that this change in Palestinian leadership will embolden the Palestinian Authority to take the courageous steps required to achieve peace that we have long argued are necessary.

But between our hopes for the future and the tragedy of the past 4½ years of renewed violence and terror is the reality of a Palestinian Authority in shambles. Infested with holdovers from Arafat's goon squad, mired in a swamp of stultifying corruption, and crippled in its development by a decade of misrule by an unreformed arch-terrorist, the Palestinian Authority is hardly in a position to sign a conflict-ending peace deal. The PA can scarcely pay its own salaries, so what can we expect of it when it comes to seizing weapons or establishing the rule of law or even collecting taxes and making sure that people pay their bills? The Palestinian Authority is a weak and wobbly arrangement, at best, but it is certainly the only bet worth playing.

Clearly, President Abbas faces many challenges, but if he genuinely intends to address any of them, first, foremost, and absolutely, he must act to stop terror and the potential for its resumption. Without this step, none of the other necessary reforms will be possible. For the first time, however, we can take hope in the fact that Palestinians are now led by a man who understands this fundamental truth.

Madam Chair, we all know that to achieve the legitimate aims of the Palestinian people, President Abbas must reform the Palestinian security services, end incitement against Israel, and deliver a government free of corruption and capable of producing the economic growth and prosperity the Palestinian people deserve. This is the agenda to which the Palestinian Authority committed at last week's conference in London. The question is how to achieve these goals, and here the United States and the international community can, and should, help. But here, too, is the crux of the problem.

The President's proposal for \$200 million in the supplemental and another \$150 million in the fiscal year 2006 budget request is a step in the right direction, but I want to make it perfectly clear that I am deeply concerned, and I believe we should be deeply concerned, that the specific programs funded by these requests, though, each supportable on its own terms, will not transform this moment of opportunity into a foundation for success.

The proposals that have been briefed so far not only lack imagination but political coherence. I am convinced that they will not provide us nor the Palestinian Authority with the leverage necessary to move the process of reform forward. A project here and a project there will not show the Palestinian people that Abu Mazen's choice for peace is revolutionary, that it is, indeed, the best way forward, and that the Palestinian Authority is a political entity that can deliver effective governance and public services.

I think what is required is an extreme makeover. We need to redo an entire town, or better, several, in order to demonstrate the tangible benefits of peace and who can deliver them. What is lacking in the Administration's proposal is not that the projects are not

new—many, if not most of them, are; it is that they seem disconnected from the larger strategic goal of the peace process. For instance, there is a rule-of-law program proposed that seems to consist mostly of constructing courthouses. While I think courthouses are necessary, shouldn't we be focusing on programs that promote transparency, accountability, and help the PA root out corruption?

Similarly, I am concerned about the proposal to assist municipalities. Surely, the Municipal Services Governance program should be for assistance to reformers in the PA to help them abolish corruption and deliver services and is not, nor should it be, intended to strengthen the newly elected Hamas mayors and their terrorist allies.

One last point on the proposed assistance package: I do not see a clear linkage between the reform commitments that the Palestinian Authority made in London last week and our assistance package. The Administration seems to be operating on the assumption that all we have to do is throw a big number on the table and, presto, the PA does the hard work necessary to root out corruption and compete with Hamas for the hearts and minds of Palestinians.

I would like, Madam Chair, to make a proposal to the Administration. It is my understanding that the Palestinian Investment Fund is considering establishing an economic development fund for Gaza. They would start with \$100 million or \$150 million of their own money. These funds could be used for capital investment, infrastructure improvements, recapitalizing distressed businesses, and even courthouses. It could be structured in such a way that it would be managed according to international standards of transparency and accountability. For the international community's part, credit enhancement or loan guarantees could be provided to encourage private sector participation.

Such a fund would further United States policy by demonstrating that the Palestinian Authority could, with its own money, develop Gaza on a scale that Hamas could never reach. It would also stimulate durable economic growth, empower the private sector, and encourage long-term, viable business development, which is a key step in moving away from the dependence on international assistance. Our assistance should be used to help make this a reality. I believe that the United States must use whatever leverage we have, and right now we have a lot, to press the Palestinian Authority to establish a fund for the development of Gaza. Peace and prosperity must go hand-in-hand if we expect to have either one.

Madam Chair, now is the time for U.S. leadership in support of Abu Mazen's efforts to fight terror, reform his security services, and eliminate corruption. In the coming weeks and months, we will have time to judge his efforts, but bearing in mind the potential for failure, now is the time to act in pursuit of peace. I look forward to hearing our very distinguished guests today.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Ackerman.

We are going to have two votes, so sorry, but I would like to recognize the Vice Chair of our Subcommittee, Congressman Chabot, for an opening statement, and then Mr. Berman as well before we break. Mr. Chabot?

Mr. CHABOT. Thank you, Madam Chair. In light of the fact that we have the votes on the Floor, I will be very brief.

I just want to thank you for holding this particular hearing, and thanks for your leadership in this whole area, and this is a very critical time, so I think it is a very timely time to have this hearing, and I will yield back.

Ms. ROS-LEHTINEN. Thank you so much. I am always ready to recognize you for praise.

Mr. Berman, you do not have to praise me.

Mr. BERMAN. I want to praise the Chairwoman of this Subcommittee.

Mr. ACKERMAN. All praise the Chairwoman.

Mr. BERMAN. I have no opening statement, Madam Chairman, except for congratulations for calling this hearing. It is a real important subject and a very important time to hear about it.

Ms. ROS-LEHTINEN. Peer pressure. Well, thank you. If you will excuse us, we will put democracy at work, and we will come back. So the Subcommittee is just briefly in recess.

[Whereupon, at 2:24 p.m., a brief recess was taken.]

Ms. ROS-LEHTINEN. Thank you so much for your patience, and we will come to order.

I want to recognize a great organization that is with us today, WAIT. The back of their t-shirts say: "I was worth waiting for you, and so are you," the other way. Okay. Very good, and they have an exchange program in Israel, and we congratulate you for what you are doing, a good message.

I would like to introduce David Satterfield, who is the Acting Assistant Secretary for Near Eastern Affairs. He has served as Principal Deputy Assistant Secretary of State, Deputy Assistant Secretary, Ambassador to Lebanon, and was confirmed by the Senate in May 2004 as the next Ambassador to Jordan. A career member of the Senior Foreign Service, Ambassador Satterfield entered the Foreign Service in 1980 and has served at many posts, both overseas and in Washington. Ambassador Satterfield is the recipient of the Presidential Meritorious Executive Rank Award, the Department's Senior Performance Award, and six Department of State Superior Honor Awards, notably for his work on the Middle East peace process. Thank you, Mr. Ambassador, for being here.

And also we will hear from James Kunder. He is the Assistant Administrator for Asia and the Near East at the U.S. Agency for International Development (USAID). Mr. Kunder has extensive government and private sector experience in international development. He has served as Deputy Assistant Administrator for Asia and the Near East, Director for Relief and Reconstruction in Afghanistan, Deputy Assistant Administrator for USAID's Bureau for External Affairs, and in many other capacities. He was also Vice President for Program Development at Save the Children Foundation.

Thank you both for being here today. Your entire statements will be made part of the record and feel free to summarize. Thank you. Mr. Ambassador?

**STATEMENT OF THE HONORABLE DAVID M. SATTERFIELD,  
ACTING ASSISTANT SECRETARY, BUREAU OF NEAR EAST-  
ERN AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. SATTERFIELD. Thank you very much, Madam Chair. I would like to open with a brief summary, but I would like to say at the outset, the Administration shares both the optimism and the concerns which you expressed, and we also take very seriously the quite trenchant observations of Congressman Ackerman with respect to the very significant challenges which the Palestinian administration, the community, and the United States face as we seek to change the situation for the Palestinian people and for Israel on the ground today.

There have been dramatic changes over recent months that have significantly improved the prospects of achievement of the President's vision of a two-state, peaceful resolution to this conflict. Following the election of Mahmoud Abbas, the PA has, indeed, moved on reforms that are critical to the establishment of a stable, democratic, economically prosperous Palestinian State. Palestinian municipal and legislative elections scheduled for later this year are another strong signal of regional democratic transformation and a milestone for the PA.

Now, we anticipate a strong challenge to all of this from Hamas and from others. Our policy needs to demonstrate to the Palestinians that their interests are best served by supporting leaders and leadership that is committed to reform, peace, and the abandonment of terror.

Now, the recent reform efforts which we have seen—renewed Palestinian partnership, Israel's bold plan to disengage from Gaza and parts of the northern West Bank, and region-wide momentum in the direction of democratic reform and democratic transformation—all have created a window, but a fragile window, of opportunity. Terror, as always, seeks to destroy the chances for peace, and we have made clear as we can to the Palestinian Authority that it must act against the terrorists.

For our part, we need to support the PA leadership as it takes the necessary, required steps in its own interest to address security, governance, and economic reforms. The President's plan to provide \$350 million in assistance to the Palestinians provides the support. The \$200 million in supplemental assistance is the centerpiece of the urgent aid needed now.

The supplemental request for Gaza and the West Bank will spur reform, expand opportunities for the Palestinians, and address economic and technical issues which are critical to the success of Israeli disengagement and, just as importantly, the success of the day after disengagement for Israelis and for Palestinians. It will also focus on the key issue of security through the mission of General Ward, which begins today, which will greatly enhance our capacity to support Palestinian security reform measures, including those which you raised, Madam Chair, in your remarks.

Our proposed assistance does not occur, does not take place, is not given, in a vacuum. We have been deeply engaged with the international community, including regional states, in providing their fair share of assistance to the Palestinians, and I will underscore this message today, as we have underscored it in the past.

It is not just in United States and Palestinian and Israeli interests to see this peace process succeed. It is very much in the interests of all of our partners in Europe and, above all, our friends and partners in the Middle East. This is their concern, their crisis, as well, and we look very much and very specifically to the states of the Gulf, who have profited so much from the windfalls of the last year, to provide their share of help to the Palestinian people at this critical moment.

We are also encouraging the broadest coalition of partners possible to focus not just on monetary assistance but also on support for the critical reforms necessary to set up democratic institutions of governance. Most encouraging, as we look at the challenges before us and the reality we see today, is that Israeli-Palestinian dialogue has resumed after 4 years of brutal violence and too much suffering and loss of hope. There is a new beginning being made for a new and different kind of future.

As for many in the Middle East who have so long been plagued by cynicism and disappointment, there really is reason to be hopeful today. We are optimistic, we are realistic, we look forward to working with you in the Congress as together we seek to take advantage of this chance for peace.

[The prepared statement of Mr. Satterfield follows:]

PREPARED STATEMENT OF THE HONORABLE DAVID M. SATTERFIELD, ACTING ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

Madam Chairman and Members of the Committee:

Thank you very much for providing me the opportunity to come here today and discuss our policy toward the Palestinians.

Recent dramatic changes within the Palestinian Authority and between Israel and the Palestinians have significantly improved the prospects for achieving the President's vision of two states, Israel and Palestine, living side by side in peace and security. As Secretary Rice has made clear: we are at a moment of opportunity and we must seize it.

Following the overwhelming electoral victory by Mahmoud Abbas in a largely free and fair presidential election at the beginning of the year, the Palestinian Authority has begun to take positive steps to implement many of the reforms that we have long stressed are critical to the establishment of a stable, democratic, and economically prosperous Palestinian state, and critical to the successful implementation of the roadmap. We find encouraging the shape of the new cabinet, and the insistence of a majority of Palestinian legislative members that ministers be free of the taint of corruption and cronyism that has long plagued the Palestinian Authority.

Palestinians will go to the polls again later this year to elect a new legislative council for the first time in nearly a decade. These elections will be another strong signal in favor of democratic reform throughout the region and will be a critical milestone for President Abbas and his reform agenda. We anticipate that he will face a strong challenge from Hamas and other extremist Palestinian groups. Our policy must demonstrate to Palestinians that their interests are best served by supporting leaders committed to reform, pursuing the path of peace, fighting terror.

Recent efforts to reform the Palestinian Authority, a renewed Israeli-Palestinian relationship, and a reinvigorated press for democratic change regionwide have created a window of opportunity. It is imperative that we assist President Abbas and his government as they work to create changes on the ground that will assure Palestinians that this new path is a better path and help build support for peace.

There is reason for hope, but the opportunity for peace is fragile. The Administration is attuned more than ever to the reality that terrorists seek to disrupt—and destroy—this opportunity, as illustrated by the horrific terrorist bombing in Tel Aviv on February 25. Therefore, we have made clear to the PA that it must take immediate and decisive action against terrorists who kill innocent civilians and act to subvert progress. The need for action is all the more pressing as we look ahead over the next six months, which will witness Palestinian municipal and legislative elections, and implementation of Israel's plan to disengage from Gaza and parts of the northern West Bank.

For our part, we need to support the new Palestinian leadership as it takes the necessary steps to address security, as well as governance and economic reforms. We must make clear that we stand with leadership willing to take the necessary, and often difficult, steps towards peace. The Administration's plan, subject to Congressional approval, to provide \$350 million in assistance to the Palestinians, provides this necessary, tangible support. Our proposed \$200 million in proposed supplemental assistance is the centerpiece of this support.

The supplemental assistance for the West Bank and Gaza will quickly be put to use in a number of areas, primarily economic, social, political and security infrastructure. The proposed supplemental assistance will spur reform and expand economic opportunities for the Palestinian people and address the economic and technical issues that are critical to ensure successful Israeli disengagement. It will assist Palestinians with institution building, civil society strengthening and infrastructure development—necessary foundations for emerging democracy. It will also be focused on the key issue of security, and will support security reform through the mission of General William Ward, who arrives in the region today. Working closely with the new Minister of Interior, General Nasir Yusuf, General Ward's mission will greatly enhance our capacity to support Palestinian security reforms. Finally, this proposed assistance will strengthen our ability to persuade other states in the region that they need to share the burden and do more in the way of monetary assistance to the Palestinians and the PA.

In addition, we are working both bilaterally and in multilateral channels to encourage our partners in the region and internationally to increase their own economic assistance to the Palestinians to alleviate Palestinian poverty, reduce unemployment, re-build critical infrastructure, and promote new private sector investment. We will work closely with the Palestinian Authority to ensure that the economic reforms required to make these assistance programs succeed are implemented.

We also look to the regional neighbor states, especially Egypt and Jordan, to take steps that will contribute constructively to the efforts of the two parties in making progress towards peace. Egypt's willingness to work with Palestinian security forces to improve the security climate in Gaza, its hosting of the Sharm al-Sheikh summit, and the decision by both Egypt and Jordan to return their Ambassadors to Tel Aviv are all indicative of the many ways that these two states can play a crucial supportive role in the peace process. Beyond the immediate neighbors, other states in the region also have important roles to play, not only in providing Palestinian economic assistance, but also in lobbying for internal Palestinian Authority reform, resuming contacts with Israel, re-opening trade or other representative offices, and finally and forever abandoning the Arab League boycott, which remains an obstacle to peace and economic advancement. With promising openings between Israelis and Palestinians, we will be working aggressively over the coming months to encourage our friends and partners in the region to help create a positive environment for peace.

Perhaps most encouraging is the resumption of Israeli-Palestinian dialogue; it gives both Israel and the Palestinians new hope for the future. Successful implementation of the Israeli planned withdrawal from Gaza this summer will be a key milestone marking a move away from the violence and terrorism of the past four years and towards a political process that will allow implementation of the road map, which remains the internationally agreed strategy for achieving the President's vision of two democratic states, Israel and Palestine, living side by side in peace and security.

As with many areas in the Middle East, which have for so long been plagued by cynicism and disappointment, today there is reason to be hopeful. We are realistic, yet optimistic, and look forward to working with you on these issues as we move ahead.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Ambassador.  
Mr. Kunder?

**STATEMENT OF THE HONORABLE JAMES KUNDER, ASSISTANT  
ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY  
FOR INTERNATIONAL DEVELOPMENT**

Mr. KUNDER. Thank you, Madam Chair. I also want to thank you and the Committee for having the interest in this topic. Your hearing could not have been more timely. I will summarize very briefly my main points.

To meet and support the dramatic changes taking place in the Palestinian territories, we at USAID are both reprogramming existing funds to provide immediate assistance as well as requesting additional funds to lay the foundation for longer-term support for the creation of a viable Palestinian State coexisting peacefully and productively with its neighbors.

There are four broad objectives with these reprogrammed and additional funds: Number one, ongoing humanitarian assistance to provide essential food aid and emergency assistance to needy families in the territories; number two, immediate response to the successful elections—we are using reprogrammed funds to support activities that have a direct impact on the well being of Palestinians, in particular, small-scale projects that have high employment-generation capability. Third, we are focusing on opportunities to seize the day during this initial transitional period. The new funds we are seeking would provide continued income-generating opportunities and provide some larger scale economic and institution-building work to support the Gaza disengagement plan and to help strengthen the foundation for an eventual Palestinian State. And, finally, we are seeking funds in fiscal year 2006 and beyond for sustained programs to promote systemic transformation. To get to the point that Congressman Ackerman was making earlier, these new funds in the fiscal year 2006 budget would continue work initiated through the supplemental funding, as well as initiate additional projects designed to facilitate meeting the objective of statehood.

In general, we are working very closely with our State Department colleagues, with our World Bank colleagues, with the other bilateral donors involved.

We have learned a lot of lessons in terms of accountability. I know that this is an issue the Chair is very much interested in. We have systems in place in terms of working with civilian partners, American contractors, American NGOs, and local NGOs. We have extensive oversight mechanisms in terms of our working with our own Inspector General, the General Accounting Office. We have a system of getting folks out to make sure that the money is being spent in the ways in which it is intended to be spent by the taxpayers, and we have got a requirement, both a requirement for counterterrorism certification by our partners and a vetting process within the U.S. Embassy in Tel Aviv, to ensure that the partners we select are worthy of receiving the taxpayers' dollars.

So in the experience we have had in the program thus far, we are convinced that as these programs are scaled up, the money that is delivered will meet the objectives that have been outlined in the President's plan. We are prepared to provide any level of detail that the Committee would want in terms of specific uses for the supplemental funds and for the requested fiscal year 2006 appropriation. I would be glad to answer any questions the Committee has. Thank you.

[The prepared statement of Mr. Kunder follows:]

PREPARED STATEMENT OF THE HONORABLE JAMES KUNDER, ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Madam Chairwoman, thank you for the opportunity to testify today on the USAID program in the West Bank and Gaza.

The unprecedented opportunity created by the Palestinian presidential, municipal and legislative council elections, combined with Israel's planned disengagement from Gaza, is being addressed by the US government through a combination of diplomacy, donor coordination, and assistance packages.

To meet and support the dramatic changes taking place in the Palestinian territories, we are both reprogramming existing funds to provide immediate assistance, and requesting additional funds to bridge the immediate and medium term, and to provide longer-term support for the creation of a viable Palestinian state coexisting peacefully and productively with its neighbors. We are using these reprogrammed and additional funds for:

- (1) Ongoing humanitarian programs: to provide essential food aid and emergency assistance to needy families.
- (2) Immediate response to the successful elections: Reprogrammed funds are supporting activities that have a direct impact on the wellbeing of Palestinians, in particular small-scale projects that have high employment generation capability.
- (3) Opportunities to seize the day during the initial transition: New funds provided in the proposed supplemental would continue generating income opportunities, and would begin some larger scale economic and institution-building work to support the Gaza disengagement plan and help strengthen the foundation for an eventual Palestinian state.
- (4) Sustained programs to promote systemic transformation: New funds in the longer term (FY 2006 and beyond) would continue work initiated through the supplemental funding as well as initiate additional projects designed to facilitate meeting the objective of statehood.

Our current West Bank and Gaza program is designed to help alleviate the hardships faced by many average Palestinians since the beginning of the Intifada in 2000, and at the same time address longer-term development needs by promoting reform, revitalizing the private sector, and building human capital. Under the program, jobs have been created, businesses revitalized, roads and water infrastructure built, health care and nutrition needs of the most vulnerable met, and the rule of law and anti-corruption measures promoted.

Our private sector programs have assisted some 1,000 businesses to penetrate new markets, creating 5,000 jobs and generating \$25 million in exports. USAID-funded water infrastructure has provided a reliable source of clean water for 500,000 Palestinians across the West Bank and Gaza. We have also funded programs to develop the capacity of the Palestinian Legislative Council (PLC) and the Palestinian Monetary Authority, to assist the Minister of Finance in strengthening the internal audit capacity of the Palestinian Authority, and to restructure the new Ministry of National Economy. One benefit of this assistance was evident recently when the PLC used its newly developed capabilities to influence the Executive Branch in the selection of a reform-oriented cabinet. Under the health program, we trained health workers, provided medical supplies and essential drugs, and distributed health education kits to more than a 1,000 women living in isolated communities, training them to recognize danger signs during pregnancy and newborn care.

Let me briefly summarize the new assistance programs and what we are doing to address the specific development challenges that we face on the ground.

#### IMMEDIATE ASSISTANCE

Immediate assistance has taken two forms. First, on December 8, 2004 President Bush signed a determination that waived limitations on assistance to the Palestinian Authority in order to allow \$20 million in aid to the interim Palestinian leadership. This urgently needed budgetary support gave a financial boost to the new government as it pushed its reform agenda and prepared for elections, and was used wholly to meet utility costs the Palestinian Authority had incurred. This was the second time the USG has provided direct budgetary support to the PA. In the summer of 2003, USAID and the PA entered into a cash transfer agreement that financed the provision of utility services and the repair and rehabilitation of municipal infrastructure. Safeguards were built into these agreements to make sure that funds were used for the purposes intended.



Second, over the next ninety days, USAID will use \$41 million reprogrammed from a planned water infrastructure project to implement a number of activities that will demonstrate tangible economic and social benefits of reform. Activities include a robust microfinance program that will benefit 10,000 Palestinians, an agricultural program that can provide sustained increases in employment opportunities, and a variety of small water infrastructure projects that will benefit as many as 400,000 residents. Community facility construction and road reconstruction will provide employment as well as a safe recreational environment for young Palestinians. Health facilities and emergency assistance will be provided to 480,000 needy Palestinians.

#### \$200 MILLION FY 2005 SUPPLEMENTAL REQUEST

Our \$200 million FY 2005 supplemental request is designed to further signal the USG's deepened engagement and allow us to maximize the opportunities available during this critical time. In addition to emphasizing new programs in the areas of democracy and governance, the supplemental will enable Palestinians to seize economic opportunities that may emerge after Israel's withdrawal from Gaza and the four settlements in northern West Bank and address such pressing social issues as the productive engagement of youth.

We intend to allocate \$110 million for the economic revitalization of the West Bank and Gaza, in particular after disengagement. Activities will support job creation, improved access to trade in international markets, loans for home construction, improved municipal services, and infrastructure development. We will use up to \$50 million of these funds to support the establishment of a World Bank-recommended pilot program to upgrade and improve the passages through which Palestinian goods and people transit to Israel and the rest of the world. This urgently needed project will help ensure that Israeli security needs are met as disengagement goes forward, will respond to Israel's continuing effort to find the appropriate balance between the imperative need to respond to terrorism and the humanitarian interests of the Palestinian people, and will help the Palestinian economy recover and become less dependent on outside assistance.

We also intend to allocate \$90 million for economic, social, political and security infrastructure development, with a focus on judicial, legislative and civil society strengthening, political party development, media strengthening, health and social services in particular to the poor, and strengthened security structures to confront terror and violence and restore the rule of law.

By supporting the above activities the USG will strengthen political moderates as well as the institutions of statehood, will help to provide an alternative source of public services to those offered by Hamas, and will provide tangible, immediate benefits to Palestinians.

#### \$150 MILLION FY 2006 REGULAR REQUEST

Our FY 2006 request will, among other things, build on and enhance the activities that were started under the FY 2005 Supplemental Budget Request. During the Intifada much of USAID assistance was reprogrammed towards humanitarian relief and emergency programs. USAID intends to use the increased FY 2006 funding as a way to further its longer-term development objectives.

For example, under its private sector objective USAID will continue its support for: (1) creating jobs and improving the performance of a micro, small, and medium enterprises and financial institutions; (2) assisting the Palestinians in establishing a national trade promotion organization; (3) an initiative that would support development of a state of the art business school at one of the Palestinian universities; and (4) developing a major agriculture revitalization initiative that will establish private sector partnerships and linkages with Israeli marketing firms to increase agricultural production and exports to regional and international markets.

In the area of water resources development, USAID will continue well drilling activities in the West Bank, and for construction activities under the wastewater treatment plant activity in Hebron. We will support the institutional development of both the Palestinian Water Authority and the Department of Roads within the PA Ministry of Public Works and Housing, addressing water development and planning related institutional challenges. Finally, USAID will fund the continuation of the village water distribution project, which provides safe and sustainable water and sanitation services to about 150,000 residents of 10 villages near Nablus.

Under its democracy and governance initiatives the major priorities USAID intends to address in FY 2006 are (1) strengthening the rule of law and the judiciary; (2) supporting the Palestinian Legislative Council and Executive Branch policy

units; (3) improving the quality of governance and the service delivery capabilities at the local level; and (4) continued support for civil society programs.

In the area of higher education USAID will provide support for scholars under the Presidential Scholarship Program; continue to strengthen Palestinian institutions of higher learning by providing local scholarships to students in fields that meet immediate and critical needs; provide funding to enable access to electronic journals and databases at universities worldwide; and provide funding for research proposals in the scientific and social sectors. USAID will also introduce a vocational training activity.

In the health sector, USAID will continue to provide training and quality improvement, management assistance, capacity building, behavior change, communication, policy dialogue, advocacy, and procurement of medical equipment, supplies, vitamins and minerals for its family planning, child survival, health and nutrition programs. Palestinian NGOs and other institutions will also be supported with research to provide data for decision making and USAID will continue to assist Palestinian institutions in strengthening their policies and programs regarding food fortification and micronutrient deficiencies.

In the community services area, two new programs will be introduced. The first, a four year program to support youth and organizations that provide youth services will focus on: (1) youth incomes and job opportunities; (2) awareness and training to change youth behaviors; (3) recreational infrastructure for youth; and (4) educational and vocational training. A second program, also to be implemented over four years, will support municipalities and town and village councils in the West Bank and Gaza with an aim to strengthen democratic governance, accountability, and responsiveness, while improving municipal planning and management capacities. USAID will seek to ensure that the municipalities, town and village councils that it supports, are able to deliver a range of services that are sustainable, tangible and highly visible.

#### PROGRAM MANAGEMENT

Managing the West Bank and Gaza program is a challenging exercise. Special vetting procedures in addition to USAID's anti-terrorism certification process are in place to guarantee that no US Government resources fall into terrorist hands. The USAID Mission also works closely with Embassy/Tel Aviv and the Consul-General's office in Jerusalem to assure that program identification, development and implementation are coordinated with policy interests, in recognition that our development assistance to the Palestinians is part and parcel of overall US foreign policy in the region. The U.S. assistance program is a key factor in the development of a viable Palestinian state coexisting with its neighbors, in particular Israel.

Travel restrictions imposed due to security concerns present additional challenges. Often parts of the territories have been closed to travel by USG officials for long periods of time. USAID has adapted its programs to these extraordinary circumstances, balancing the desire to maintain program presence while at the same time assuring prudent management. Extensive use of qualified foreign service national staff and contract personnel has allowed various activities that do not require intense American oversight to continue.

#### CONCLUSION

The West Bank and Gaza program has successfully responded to the ever-changing conditions on the ground. The program has provided a robust response to the difficult humanitarian situation, while maintaining longer term development projects, including the strengthening of institutions that will underpin a future Palestinian state. In this way, the program has played an important role in furthering US foreign policy objectives in the region.

Ms. ROS-LEHTINEN. Thank you so much, and thank you for your brief presentations because that gives us more time for questions, and I would like to turn to the Vice Chair of our Subcommittee, Mr. Chabot, to start the round of questions. Thank you.

Mr. CHABOT. Thank you, Madam Chair. I appreciate that.

Thank you for your testimony here this afternoon. I was in Egypt a month or so ago and had an opportunity to go up and visit the Gaza area, obviously, on the Egyptian side. My question would be, are U.S. Embassy personnel in Tel Aviv prohibited from visiting the Gaza Strip?

Mr. SATTERFIELD. Since the October 2003 murder of three United States security contractors in the Gaza Strip, for reasons related to the security of American personnel, yes, we have denied entry to the Gaza Strip under the chief of missions authority in Tel Aviv for American officers. This is a very serious situation, and, Congressman, since those murders, we have underscored, through a succession of Palestinian leaders, the critical importance of moving forward a meaningful, transparent, credible investigation into those responsible for those killings.

We suspended water projects, vital for the Palestinians in Gaza, because of our concern over those killings and our ability to adequately monitor, in accordance with USAID regulations, those projects. So there is a price being paid by the Palestinians for failure to pursue this case.

Now, with the new Palestinian leadership, President Abbas, we have directly raised, at his level, the level of his security chiefs, the necessity of moving forward, and we have his commitment to doing so, but we have not seen the kind of tangible progress on this case which we require.

Mr. CHABOT. What impact would these restrictions have, or do they have, on monitoring and verifying the PA's compliance with its commitments and our ability to properly audit organizations provided that are United States assistance?

Mr. SATTERFIELD. I will defer to my colleague on the second part of your question, but with respect to the first, obviously, a United States presence in Gaza will be very important to any adequate work with Palestinian security services as they reform, as well as to monitoring of what restructuring has taken place. Can it be done elsewhere? Yes, it can. It can best be done, though, on the ground.

Mr. KUNDER. To be clear, sir, when you mentioned assistance to the Palestinian Authority, as you know, there has been very, very limited direct assistance to the Palestinian Authority. Most of the money that is flowing into both Gaza and the West Bank is going to civilian organizations, community service organizations, and so forth. And United States personnel are still working in the West Bank, subject to the chief of missions review, depending on the security situation, but most of the time, we are able to get our United States officers stationed in Jerusalem or Tel Aviv into the West Bank to see the projects and verify them with their own eyes.

In those cases where we cannot, as in the Gaza Strip, as Ambassador Satterfield said, we rely on a number of mechanisms. We do have American NGO partners, nongovernmental organization partners, working on grant agreements with us, who do continue to travel, and we rely on their reports. We have foreign service national personnel, primarily Palestinian or Arab-Israeli citizens who work for the USAID mission, who do travel into those areas, even where Americans cannot. We do have contract personnel, and we do rely on our inspector general's trips as well. So there is a very extensive series of mechanisms to ensure compliance with the purposes for which the funds were intended.

Mr. CHABOT. Thank you. What is the policy direction being given by State to USAID in selecting programs and contractors and grantees under programs for the Palestinians? I noticed you indicated they are somewhat limited now. What criteria and screening

process is in place to assess the eligibility of principal contractors and subcontractors and grantees?

Mr. KUNDER. As I mentioned, sir, we are working very, very closely. Obviously, we meet regularly here in Washington, but our mission director and staff out there are working very closely, both with the Ambassador in Tel Aviv and with the Consul General in Jerusalem. So there are no projects that USAID is doing that have not been fully vetted throughout the entire Embassy community.

Specifically, when we determine that we desire to work with a certain Palestinian organization, be it a nongovernmental organization, a community service organization, the name of that organization is vetted among the full Embassy team, starting with the Ambassador and all of the agencies present there, and then we also go one step below that, and we identify the chief officers of each one of those Palestinian organizations, and they are vetted additionally as individuals. So we make sure that the people we are working with meet all of the standards you would expect.

Mr. CHABOT. Thank you. My time has almost expired. I am going to ask one last question here.

In Congressional Notification No. 39, dated February 3rd, over a million dollars in ESF is allocated to "support family planning programs," including the "promotion of healthy reproductive behavior." Would you please elaborate on what U.S. Government funds are promoting, and is this in keeping with the clearly articulated policies of the President and the majority in the U.S. Congress?

Mr. KUNDER. You are taking me by surprise with that question, sir, but I can guarantee you, without any equivocation whatsoever, that the USAID programs are programmed in complete accord with all of the applicable congressional requirements and with the Administration's policies. These programs are very carefully monitored. I would be glad to provide additional assistance at any level of detail you want, but there are no dollars being programmed that do not comply with all of the congressional requirements and the Administration's policy in this area.

Mr. CHABOT. We would expect that.

Ms. ROS-LEHTINEN. If the gentleman would yield,—

Mr. KUNDER. Yes, sir.

Mr. CHABOT. Yes.

Ms. ROS-LEHTINEN [continuing]. So you could provide us with that—

Mr. KUNDER. I would be glad to give you a detailed explanation for that.

Mr. CHABOT. We would appreciate that. Thank you very much.

Mr. KUNDER. Yes, sir.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM THE HONORABLE JAMES KUNDER TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE STEVE CHABOT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

#### SUPPORT FOR FAMILY PLANNING AND HEALTHY REPRODUCTIVE BEHAVIOR

USAID's proposed investments in reproductive health in the West Bank and Gaza are in full compliance with U.S. policy and law. Funds under the West and Gaza Mission's Congressional Notification #39, dated February 3, 2005, will be used to promote "healthy reproductive behavior." This refers to counseling provided to Palestinian couples on child spacing. Birth spacing on 3–5 years between preg-

nancies is recommended as one of the best ways to assure the health of the mother and children. This is also in keeping with the Palestinian Ministry of Health policies and guidelines. The funding complements other maternal and child health interventions and is provided as a part of a comprehensive health program. The USAID program does not promote or fund abortions; it is in compliance with the Administration's policies regarding reproductive health.

Mr. CHABOT. My time has expired.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Chabot.

My good friend, Mr. Ackerman of New York.

Mr. ACKERMAN. Thank you, Madam Chairman.

In July 2003, during President Abbas's term as Prime Minister, the United States provided \$20 million in direct assistance to the Palestinian Authority. Nine million dollars of this went to pay for utility services, and the balance was for repair and rehabilitation of the municipal infrastructure. Can you tell us how much of that \$11 million has actually been spent, and has it all been obligated?

Mr. KUNDER. I am looking over my shoulder, sir, to see if they have that number right here.

Mr. ACKERMAN. We do that a lot up here.

Mr. KUNDER. If I do not have that number right there, I will be glad to get it to you very quickly.

Mr. ACKERMAN. Can we wait for that, or do you want to move on?

Mr. KUNDER. I am sorry, sir. I do not have that number right now.

Mr. ACKERMAN. Okay. In December 2004, we also provided \$20 million directly to the PA for payment of electricity bills. It is my understanding that the electricity sector, in particular, is rife with corruption within the Palestinian areas, and yet we have paid \$29 million worth of bills without demanding any sort of reform of the electricity sector. Can we explain that?

Mr. SATTERFIELD. Congressman, that assistance was provided to the Palestinian Authority, but the monies were transferred to the Government of Israel to its electric infrastructure. We have absolute accounting, provided both directly by the Government of Israel and the Palestinian Authority, for that billing, and the bills were not a product, in our view, of any questions raised on the Palestinian side. These were legitimate expenses owed by the Palestinian Authority to the Government of Israel for services rendered. By providing that assistance through the Palestinians to Israel, we freed up additional funding for Palestinian Authority use on their own projects.

Mr. ACKERMAN. Yes, but the corruption within the electricity sector allows all of those—and I am told it is significant—who are involved within that sector to loot and plunder funds from within the electricity sector. That, then, leaves the bills that were due Israel unpaid, which we then went in and, through them, paid.

Mr. SATTERFIELD. Congressman,——

Mr. ACKERMAN. In other words, we are not holding anybody responsible. They should have been paying their bills with their money at that time, and, instead, that money went into personal pockets, and we came and bailed them out without asking for any accountability.

Mr. SATTERFIELD. Well, Congressman, we have asked for accountability and transparency throughout the assistance process

with the Palestinian Authority, but in the case of these bills, the Palestinian Authority has been in a state of financial crisis for some time now. The Government of Israel has been transferring certain amounts of withheld funds to the PA, but there is a larger amount of funds still held by the Israeli Government against court judgments which may or may not be made by the Israeli system.

Mr. ACKERMAN. I know that. In accounts receivable, the Israelis can take care of themselves, I am sure. The question is: What are we really doing to eradicate corruption within the Palestinian Authority in this sector, in particular? Because it is our money that comes in at the end after they steal all of the other money.

Mr. SATTERFIELD. Well, Congressman, what we and, more importantly, what the Palestinians themselves have done is, over the course of the last several years, even prior to the death of Chairman Arafat and the new government taking power, Minister of Finance Fayyad has undertaken and put in place very significant budgetary reforms. The amount of lost monies to waste and corruption and mismanagement has been significantly reduced, not just to our standards but to the standards of the international community and the international financial institutions. We have seen enormous progress made on the budgetary side, including in the electrical sector.

Mr. ACKERMAN. I have met with the finance minister as well. I am very confident in his abilities as well as his integrity. But if you could get back to me on what specifically we have been pressing in the electricity sector——

Mr. SATTERFIELD. On the electricity sector specifically, we can do that, Congressman.

Mr. ACKERMAN. I appreciate that.

Mr. KUNDER. Sir, if I may, just to answer your earlier question, that \$11 million was programmed against 71 small road and water projects across the West Bank and Gaza. Twenty of those, according to our latest report, have been fully completed, and the other 50 are in some stage of completion. So I would estimate that about half of the money is out the door and paid to construction contractors. We will get you the exact number.

Mr. ACKERMAN. It is all obligated?

Mr. KUNDER. It is all obligated, yes, sir.

Mr. ACKERMAN. And half of it is already spent?

Mr. KUNDER. Expended. It looks like about 50 percent, but I will get you the exact number, sir.

Mr. ACKERMAN. And the rest is in the pipeline, and you will get back with me on that?

Mr. KUNDER. In the pipeline, yes, sir.

[The information referred to follows:]

WRITTEN RESPONSE RECEIVED FROM THE HONORABLE JAMES KUNDER TO QUESTION ASKED DURING THE HEARING BY THE HONORABLE GARY L. ACKERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

OBLIGATION OF FUNDS FOR THE REPAIR AND REHABILITATION OF MUNICIPAL INFRASTRUCTURE

The entire \$11 million balance, which was designated for building and repairing roads, wells and other municipal infrastructure, has been obligated. As of January 31, 2005, \$9 million of the \$11 million had been expended. The biggest delaying expending these funds has been due to: (1) the unanticipated increase in the number

of projects from 30 to 70, which was necessary to address the key infrastructure needs articulated by the Palestinian Authority; (2) the need for a wide set of clearances and approvals by USAID for the design and contracting of each discrete project; and (3) the amount of time required for USAID's contractor vetting, oversight, and monitoring responsibilities, as delineated in the cash transfer agreement with the Palestinian Ministry of Finance. Each of the final infrastructure activities is now on track and all should be completed by the end of July 2005.

Mr. ACKERMAN. Okay. Thank you. Ambassador Satterfield, the Task Force on Palestinian Reform and the Ad Hoc Liaison Committee are each charged with monitoring reforms and coordinating donor assistance to the Palestinians. I think we fully expect that these two groups are talking to each other, but my question is whether or not their efforts are genuinely linked. Does the international community expect some measure of progress on reform in return for the assistance provided?

Mr. SATTERFIELD. The answer to your first question, Congressman, is absolutely, they are linked. In fact, the last several meetings of the Ad Hoc Liaison Committee and the Task Force on Palestinian Reform have occurred in the same venue with the same key participants back to back. That is precisely for the reasons that your remarks indicate: These do not exist separately with some firewall between them. They are part and parcel of the same thing.

Assistance to Palestinians is assistance not for the general principle of giving money to the PA or giving money to the general benefit of the Palestinian people. It is money given to promote specific objectives on the reform side, on the side of economic transparency to build free markets, and to build democratic institutions for statehood. So, yes, there is very much a process of interlinkage and coordination.

With respect to reform goals, there is an absolute requirement here, not just in abstract benchmarks, which we have, which the international community has, for the reform process, but it is the demand of the Palestinians to reform the security services, genuine confrontation of those responsible for terror, and moving forward to build institutions for statehood. Those are part and parcel of what must be seen by us and by the international community and the international financial institutions who have their own benchmarks that are consistent with our own on this process.

Mr. ACKERMAN. Thank you. I notice the timer light is not on, and I suspect it is not by accident that the Chair is very generous with us today. I do have one more area I would like to raise a question about.

At last week's London conference, the Palestinian Authority signed up for a long list of political and economic security-related reforms. This to-do list is not really very new. Why would you characterize, if you would, this commitment that they have renewed as different from past commitments to undertake reform, and is the proposed assistance package linked at all to the Palestinian Authority accomplishing any of these reforms?

Mr. SATTERFIELD. With respect to the pledged reforms or steps taken, including in the security area, you are right, Congressman. These are obligations and requirements that have been incumbent upon the Palestinians for some time now and requirements and obligations that have not, in large measure, particularly on the security side, been met.

But something has changed. What has changed is not just the character of the Palestinian leadership, and that is not just the person of Mahmoud Abbas as President, but the fact of Arafat's departure from the scene, the removal of his divisive and corrosive presence, the support offered not just by the international community for a new, democratically-chosen Palestinian leadership, but also the active engagement of key regional parties, including Egypt, whose role directly with the Palestinians, collectively with Palestinians and Israelis and with Palestinian factions, has been absolutely vital to trying to move forward issues such as a comprehensive and genuine cease-fire, an end to violence and terror, support for the kinds of security measures which the Palestinians must take to establish the rule of law. That is what is different in today's environment.

Now, we need to watch very closely to ensure that obligations and responsibilities are being met. But the prospects for a successful opportunity being taken by the Palestinians to move themselves and their people forward is real; it is more genuine than it has been at any point in the past.

Mr. ACKERMAN. I thank you, and I thank the Chair.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Ackerman.

Thank you, both of you, for testifying. In 2003, there was \$20 million in direct funding to the Palestinian Authority, in addition to \$127 million that was sent through the United Nations and private-aid groups, and it stipulated that outside auditors must be able to monitor how the money was used. I wanted to ask about the results of that. Have our auditors been provided access to the PA's records detailing where the money was spent? Is the Administration considering dispatching a special envoy to ensure financial accountability within the PA?

Mr. KUNDER. Even before we put that requirement in for the specific auditors, one of the additional requirements was that any cash transfer be put in a segregated bank account, in an account in a financial institution that the U.S. Government agreed to. So we established the structure and the mechanism in the first place, Madam Chair, in such a way to make sure that it would be, frankly, easy to follow the funds. That money has been fully audited, and while we understand there may be some policy questions, as Congressman Ackerman said, on whether we chose the right mechanism, our auditors have indicated that the monies did flow for the purposes for which they were intended.

Mr. SATTERFIELD. Madam Chair, I would add to that, there is an audit authority that has been established by recent Palestinian legislation, and that is part of compliance by the PA with World Bank requirements for transparency and accountability for World Bank Trust Fund-administered monies. We have seen a lot of progress made in terms of measures to increase the ability of the Ministry of Finance to do adequate, world-class monitoring of funds. We have seen an external auditing body set up now in the Palestinian Authority, and we in the international financial institutions and the other donors, notably, the EU, will insist upon complete accountability and transparency—



Ms. ROS-LEHTINEN. So you have a sense of comfort with the transparency, with the auditing, with the kind of financial oversight that is taking place both at the U.S. and international levels.

Mr. SATTERFIELD. Yes, Madam Chair.

Ms. ROS-LEHTINEN. It has been reported, and we have been discussing, that the United States is going to be providing training and support to a new Palestinian security apparatus. What type of training will they receive? What are the components for this security plan? What is the structure, the chain-of-command, which is being developed for the Palestinian security apparatus? Will the Administration be seeking separate funding apart from what we are going to be providing for the coordination and the activities of this team that is working on the Palestinian security plan, and where will these funds be coming from?

Mr. SATTERFIELD. Madam Chair, General Ward, as I said, has launched today, after a preliminary inspection trip, assessment trip, to begin his actual mission. One of his charges is to determine precisely what is required, not just what is being done, should be done, by the Palestinians, what is happening in terms of Israeli-Palestinian dialogue, but what is going to be needed here, needed not just from the United States, but also what is going to be needed from the international community.

There is a great deal of interest that was expressed in London on March 1st in how the international community could provide for a targeted, very specific assistance, sometimes in kind, sometimes in the form of training, for the Palestinian security forces. But the key issue here is reforming those forces into, if you will, a single gun under the authority of an empowered civilian leadership, and the Minister of Interior, General Yusuf, is charged with that responsibility by President Abbas.

Eliminating the multiple services created during the Arafat era and allowing an effective resumption of law and order to take place on the ground—now, General Ward will help in that process, help coordinate international efforts, help facilitate what is going on on the ground, but with respect to assistance which may be required, we have already requested \$8 million in strengthening security structures for the Palestinian Authority. We will see what General Ward's recommendations hold, but his mission is to find international assistance for the Palestinian security services, not just United States assistance.

Ms. ROS-LEHTINEN. If you could explain a little bit more about General Ward's mission and his recent appointment as the Security Coordinator for the Palestinian Authority. Please explain a little more in depth about the makeup of the team and the specific mission, what kind of oversight, and United States, international forces; what countries have said that they are going to participate.

Mr. SATTERFIELD. We can provide, Madam Chair, a very specific briefing to you, to the Committee, on General Ward's mission, informing as this mission proceeds during the weeks ahead. But in general terms, his role as Security Coordinator is to provide an on-the-ground presence, a facilitative presence, for the United States and, through us, for those in the international community who have indicated an interest in participating from the region, from the European Union primarily, in helping to set up newly struc-

tured Palestinian security forces who are capable of and effective in establishing and maintaining law and order.

Now, General Ward's mission is not to serve as an intermediary between Israelis and Palestinians. We want them talking to each other directly, but it is to facilitate the overall process of restoring law and order on the ground. That *grosimoto* is his mission, and he will draw on whatever resources from the international community, contacts with the Israeli Government and its security forces, contacts in the Palestinian security services and civilian leadership, that he requires to do this.

Ms. ROS-LEHTINEN. Thank you. Mr. Berman?

Mr. BERMAN. Help me review the state of play on the assistance to the Palestinians. The President has proposed a total of \$350 million, of which \$200 million would be in the supplemental that the House is probably going to vote on next week and which has been marked up by the Appropriations Committee. Of that \$200 million, how much did the Administration design for project aid through nongovernmental organizations, how much for project aid to the Palestinian Authority, and how much for direct cash assistance to the Palestinian Authority?

Mr. KUNDER. At this point, sir, there is no request for direct cash assistance to the Palestinian Authority. There will be assistance, for example, technical training, as Congressman Ackerman mentioned earlier. There might be technical training for judicial officials, but that would be done through a contract mechanism or through a nongovernmental organization. There might be technical assistance, as there is now for better auditing practices at the Ministry of Finance. There might be technical assistance to reform organizations of the Palestinian Authority, but it does not propose a cash transfer to the Palestinian Authority.

Mr. BERMAN. So no part of this money that was envisioned by the Administration to be money going to the Palestinian Authority, either for general expenses or to do certain things,—

Mr. KUNDER. Correct. Yes, sir. With the exception of small amounts in 1994, we have only twice provided direct assistance, as you are describing, to the Palestinian Authority, once in 2003 and once in 2004.

Mr. BERMAN. The \$20 million that we talked about—

Mr. SATTERFIELD. And then the 2004, yes.

Mr. BERMAN. All right. So when the appropriators marked up in the Committee and included a lot of language, one about reports, but, secondly, essentially prohibiting a waiver of the language which prohibits direct assistance to the Palestinian Authority, in and of itself, that language was not inconsistent with your aid request?

Mr. SATTERFIELD. Congressman, the Administration wishes to preserve the flexibility—

Mr. BERMAN. Well, you probably hate any language which does not allow you to waive anything.

Mr. SATTERFIELD. The President wants to retain, specific to this issue, the ability to provide further direct assistance to the Palestinian Authority in consultation with the Congress if we believe circumstances so warrant. There are no plans—

Mr. BERMAN. But nothing in the appropriations language deals with any assistance other than the \$200 million.

Mr. SATTERFIELD. Nothing in the current language. We wish, though, to preserve the future flexibility for the President to provide direct assistance should he deem that appropriate.

Mr. BERMAN. But nothing in that language takes away that flexibility in the future to provide future monies directly, right? The prohibition on the waiver of the utilization of the waiver only affects the \$200 million appropriated in the supplemental.

Mr. SATTERFIELD. Congressman, we would like to retain the maximum degree of flexibility, including for this \$200 million.

Mr. BERMAN. Even though you have no intention of—

Mr. SATTERFIELD. Even though, at present, we have no such intention, we would like to reserve the flexibility necessary to deal with the situation on the ground, in consultation with the Congress, that could involve the provision of direct assistance. We have no such plans to do so at this time.

Mr. BERMAN. This sounds like a philosophical comment, not a practical one.

Mr. SATTERFIELD. It is a very practical comment, Congressman, and I will draw the example of Iraqi assistance where we have needed to move on the ground very rapidly to shift priorities, to change somewhat dramatically the direction of assistance. We have done this in coordination with the Hill. With the Palestinian Account, developments on the ground may well require a reconsideration of how best to administer those funds, how best to provide them, and for what projects to provide them. We would want to be able to have the flexibility to do so, including out of the supplemental request, should the President so desire, in consultation with the Hill.

Mr. BERMAN. I am trying to understand. You have absolutely no intention, and never did, of providing the \$200 million in cash assistance, but you are firm in wanting the flexibility to do something that you, at this point, do not want to do.

Mr. SATTERFIELD. It is not "do not want to." I have no plans, Congressman, to undertake at this time. We wish to retain the flexibility should circumstances on the ground, in what has been a very dramatically changing situation, so warrant.

Mr. BERMAN. But that concern would not cause you to say that we should vote against the supplemental?

Mr. SATTERFIELD. Certainly, not.

Mr. BERMAN. Okay. We have two very important goals. One is to see the reform and the unification of the security services under the political leadership of the Prime Minister and his—I guess it is his interior minister. We also have a strong desire to see corrupt practices of the past ended. Is there a tension between the two? Are the people who are most able to play a positive role in unifying the security forces people who, at one time or another, have perhaps not met common cause standards for good governance?

Mr. SATTERFIELD. Congressman, we do not see a conflict today in dealing with this issue. We see the conflict as having existing in the past when individuals who were currently engaged in corruption, currently had dirty hands on issues beyond corruption but including association with terror and violence, were in positions of

leadership. That was a real conflict, and it was ultimately responsible for the failure to move this process forward.

Mr. BERMAN. Put another way, past corruption is not necessarily an indicator of future corruption, and you are not going to spend a lot of time looking at what somebody might have done 4 or 5 years ago or 10 years ago, and you are going to support the people who are most able to create this kind of unified, responsive-to-political-leadership security force dedicated to stopping terror attacks and bringing stability and order to the Palestinian areas.

Mr. SATTERFIELD. Congressman, the Palestinian people, through the debate in the Legislative Council which has just taken place, have made very clear that they do not want to see dirty hands in governance. They want to see things move forward. So do we, and the issue is, are individuals now in positions of authority now executing those positions in a manner that is free of corruption and effective in the confrontation of terror and violence? That is going to be the standard not just for the United States and our partners; it is very clearly the standard for the Palestinian Legislative Council and for the Palestinian people.

Mr. BERMAN. Could I ask two more questions, Madam Chair?

Ms. ROS-LEHTINEN. Yes.

Mr. BERMAN. One, the context for a lot of our hopes is that things on the ground, quality of life for Palestinians, will change quickly. Maybe this is perhaps to Administrator Kunder: How are we going to organize this money and the Europeans, their money, and if the Arab donors ever decide to make their commitments, their money, into things that are real, tangible, affect quality of life in the short term, are not stuck in procurement bureaucracies and lengthy delays, to some extent, as we saw earlier with the Iraq reconstruction money?

Mr. KUNDER. That is a fair question, Congressman. If there is one area in which I can guarantee there is probably not a policy concern, it is in the area of moving money quickly because, unlike Iraq where we did not have established partners on the ground, because we have been doing a very substantial program now for over a decade, we have a good array of American and Palestinian, non-governmental organization partners on the ground, contractor partners on the ground, and in terms of moving money quickly, we have the contract and grant mechanisms already in place.

In fact, as you know from the breakout of the request for \$200 million, a substantial portion of that is to do exactly what you said, to show some immediate, tangible results on the ground, and in terms of improving classrooms, wells and other water projects, road improvements, community centers, we can move that money very quickly through the contract and grant mechanisms that are on the ground right now.

Mr. SATTERFIELD. If I could just add to the Assistant Administrator's comment, we have a quite well-developed, local coordinating mechanism. We meet daily when it is necessary, weekly on a constant basis, to ensure that what we are doing, what the Europeans, what the Japanese, what other key donors are doing is fully coordinated, that we reflect new developments, new priorities, on the ground. That is relayed back to capitals. We have a periodic, Ad Hoc Liaison Committee grouping of key chairs in this donor process

that comes together. It did so at the beginning of December, most recently, and, informally so, at London, March 1, to review at a policy level what is going on. But the object here is fully coordinated, international assistance.

Mr. BERMAN. The Israelis have expressed concerns a number of times about the role that Hezbollah has begun to play not just in the context of the Sheeba Farms and the border and the weapons and southern Lebanon, but in terms of directly financing and helping to coordinate terror attacks emanating from, I guess, the West Bank and perhaps Gaza as well. Are their concerns well-founded, based on your intelligence and information, that Hezbollah has become more directly engaged in promoting terror emanating from the Palestinian areas?

Mr. SATTERFIELD. Congressman, we can provide a more detailed discussion of this in other settings, but in this setting, I can tell you, yes, the United States Government is very concerned at the phenomenon of Hezbollah-financed, Hezbollah-sponsored terror and violence directed against Israel. It is a growing phenomenon. It is an extremely worrisome one not just to us but to the Palestinian Authority as well.

Mr. BERMAN. And my final, final, two-part question is: Has anyone in the Administration publicly called on the Arab Governments, who made substantial commitments to the Palestinians, to meet their commitments in a way that both lets them know and the world know that they promised to do something that they have not yet done, even as they reap windfalls of money from the price of oil that they might never have anticipated, even when they made those commitments? That is Part A.

And Part B is, on the Hezbollah issue, is there any progress in getting the Europeans to treat Hezbollah as a terror organization?

Mr. SATTERFIELD. On Part A, Secretary Rice has made very clear our expectations from Gulf States, that they will step up to the plate and, in their own interest in facilitating a peace between Israel and the Palestinians, provide assistance. Yes, she has made public calls for such assistance.

With respect to the European record on Hezbollah, the issue here is twofold. Many European States currently proscribe what they describe as Hezbollah's military wing from engaging in any form of financing or fundraising activities in Europe. It is proscribed as a terrorist organization.

Mr. BERMAN. They do not know that money is fungible?

Mr. SATTERFIELD. The U.S. view is that Hezbollah, as an organization, is a terrorist organization and that you cannot disaggregate one select portion of either leadership or function, religious, social political, or terror. We have been working with the European Union quite actively, particularly over recent months, on this issue to highlight to them our grave concern over Hezbollah's active involvement, with Iranian backing, in promoting acts of violence against Israel and the Palestinians. Needless to say, Congressman, this has been a key aspect of our bilateral dialogue with the Government of Syria as well.

Mr. BERMAN. Thank you, Madam. You have been very generous with me.

Ms. ROS-LEHTINEN. Thank you, Mr. Berman, and thank you, Mr. Ackerman.

So just in summary, I would like to reiterate the strong interest that the Subcommittee has in transparency in the use of funds, the wise use of funds, that the funds are actually going to improve the quality of life, not for terrorism, not for incitement of violence. And we want to hear more about the aid that should be coming from our Arab allies, our European allies, the United Nation member states who have called out so loudly to help their Palestinian brothers. Where is the money? Where is the beef?

Just to wrap up, we have heard reports of Russia resuming sales of military equipment to the Palestinian Authority. We want to make sure that we are monitoring what kind of weaponry is being considered sold to the PA.

Two other little points. The first concerns university scholarships that we heard about that are going to update and modernize institutions of higher learning in the West Bank and the Gaza Strip. We want to make sure that the United States looks at the criteria for selecting scholarship recipients and also the aid that is going to Palestinian women entrepreneurs, the loans, and what are the results of that. So we will be following up with you on all of those questions.

We thank you gentlemen for being with us, and we thank the audience as well for participating and your patience.

The Subcommittee is adjourned.

[Whereupon, at 3:39 p.m., the Subcommittee was adjourned.]

## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

RESPONSES FROM THE HONORABLE DAVID M. SATTERFIELD, ACTING ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE, TO QUESTIONS SUBMITTED FOR THE RECORD BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIR, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA

*Question:*

*1. In accordance with section 603 of the Foreign Relations Authorization Act for FY03, the President recently determined that the PLO or PA had not complied with some of the commitments specified in the Act, but that a waiver of the prohibitions was necessary and is in the national security interest of the U.S. Please elaborate on the commitments that were not fulfilled and what specific national security interests were promoted by the exercise of the waiver. Under what conditions would you consider not implementing the waiver?*

*Response:*

In December 2004, the State Department reported to the Congress as follows:

*II. Determinations as to Palestinian Compliance with Their Commitments Required by Section 603 of the Act*

A. "Recognition of the right of the State of Israel to exist in peace and security": The PLO and PA have not complied with this commitment. Although neither the PLO nor the PA has retracted its recognition of Israel and acceptance of a two-state solution, PA and PLO failure to take action against terrorist groups or others engaged in violence, as detailed below, has called into question their commitment to recognizing Israel's right to exist in peace and security.

B. "Acceptance of United Nations Security Council Resolutions 242 and 338": The PLO and PA have complied with this commitment. Neither the PLO nor the PA has retracted its acceptance of Security Council Resolutions 242 and 338.

C. "Resolution of all outstanding issues in the conflict between the sides through negotiations and exclusively peaceful means": The PLO and PA have not complied with this commitment. A commitment to a peaceful resolution of the conflict remains the official position of the PLO and PA. As of the end of the reporting period, however, the failure to take action against, and in some cases the provision of support for, terrorist groups or others engaged in violence, contradicted that official policy.

D. "Renunciation of the use of terrorism and all other acts of violence and responsibility over all PLO elements and personnel in order to assure their compliance, prevent violations, and discipline violators": The PLO has not complied with its commitments to assume responsibility over all PLO elements and personnel to assure their compliance with the renunciation of the use of terrorism, prevent violations, and discipline violators. Similarly, the PA has not taken sufficient steps to prevent violence by PA personnel. Some PLO and PA officials supported the armed intifada as a proper path towards an acceptable end to the conflict, even as they called for renewed negotiations. Available evidence indicates that elements with varying degrees of affiliation with the PLO and PA, specifically the Al Aqsa Martyrs Brigades, Tanzim, and members of PA security forces, were involved in acts of violence against Israelis. While there is no conclusive evidence that these groups carried out specific attacks with the prior approval and encouragement of the PLO and PA leaderships, it is clear that these armed elements were not disciplined. In fact, there is strong evidence that some

members of the PA security forces were allowed to continue serving even though their participation in terrorist incidents was well known. Following Arafat's death, the PLO and PA leadership in November renewed negotiations with Palestinian factions, including Fatah, the PFLP, Hamas, and PIJ, regarding a cease-fire. They are also considering other means by which to persuade Fatah-affiliated militants to lay down their arms, including seeking guarantees from Israel not to target these militants and providing unemployed militants with job training and employment opportunities.

PM Qurei and other senior leaders in the PLO and PA have routinely condemned suicide bombings, especially those aimed at civilians within the Green Line. The PA's condemnations of terror attacks, however, were generally not followed up with concrete and sustained actions to prevent further acts of violence. Moreover, while PLO and PA officials often condemned terror attacks against civilians within Israel, they failed consistently to condemn attacks on Israeli settlers and soldiers in the occupied territories. This omission amounted to tacit support for such attacks.

A major event during the reporting period was the death on November 11 of PLO Chairman Arafat. As "supreme commander of the Palestinian Armed Forces" (his title as stipulated in the Basic Law, the PA's de facto constitution) and head of the National Security Council, Chairman Arafat wielded overall authority over the security services. With his passing, operational authority over the security services was transferred to the Prime Minister, who also assumed the chair of the National Security Council.

Past PLOCCA reports have discussed direct payments from the PA to Fatah party activists, some of whom were deeply involved in violence against Israel. Such payments may have continued during this reporting period. PA expenditure on non-PA salaries and non-emergency needs was extremely restricted during this reporting period, however, due to reduced revenues and lower than anticipated foreign budget support. In addition, as part of the PA's reform goal of achieving transparency and accountability in financial and personnel management, all security service salaries have been paid directly into employees' bank accounts via direct deposit since March 2004.

Despite the PA's public condemnations of violence, the PA did not deploy its security resources consistently and effectively against terrorism during the reporting period; this was the case even in Gaza, where the PA retained some security capabilities. A general atmosphere of impunity persisted, allowing terrorist groups to act without fearing either legal or political consequences. As noted above, however, the emerging PA leadership has declared its intention to deploy PA security services and restore law and order.

The United States has a national security interest in helping Israel and the Palestinians end the ongoing violence and move forward with negotiations. A just, lasting, and comprehensive peace between Israel and its neighbors has been a long-standing and bipartisan goal of U.S. foreign policy in the Middle East. To be able to advance these interests, we must maintain our ties and contacts with all sides. In the wake of Chairman Arafat's death, encouraging a new Palestinian leadership and reform of Palestinian institutions is a key part of our strategy towards the region. Downgrading or closing the PLO office would make it more difficult for us to continue to stay in contact with and support Palestinian reformers who share those goals. Furthermore, downgrading or closing the PLO office at this critical time would also complicate our relations throughout the region. For these reasons, and consistent with the justification provided to the Congress in waiving, the President invoked the waiver authority granted by section 604 (c) of the Act, based on his determination that such a waiver is in the national security interest of the United States.

*Question:*

*2. Are U.S. embassy personnel in Tel Aviv prohibited from visiting the Gaza Strip? What travel restrictions does the State Department impose on its personnel stationed in Jerusalem and Tel Aviv to the West Bank and Gaza? Please elaborate on the impact of these restrictions on the monitoring and verification of PA compliance with its commitments, and our ability to properly audit organizations provided U.S. assistance.*

*Response:*

U.S. government personnel (American direct-hire and contract) have been prohibited from all travel in Gaza since the deadly roadside bombing of a U.S. Embassy convoy in Gaza on October 15, 2003. U.S. government personnel are permitted to travel to the West Bank for official, critical operational needs only. These restric-



tions have had little impact on our ability to audit, monitor and verify PA compliance with its commitments.

To ensure that U.S. funds are utilized in accordance with applicable laws and regulations, and in a responsible manner, USAID project managers and contracting officers in Embassy Tel Aviv, Consulate Jerusalem and Washington work closely with local staff, even when travel restrictions preclude face-to-face meetings. USAID's staff includes three engineers residing in Gaza and another three in the West Bank, ensuring visits to construction sites during periods when U.S. staff are unable to enter the West Bank and Gaza. The USAID mission also utilizes Information Communications Technology to ensure effective oversight. Telecommuting is commonplace for staff unable to travel to Tel Aviv on a regular basis, and video-conferencing is used to maintain contacts between project officers in Tel Aviv and USAID's counterparts who have offices in Ramallah or Gaza. USAID's engineers often make use of digital photography to help keep the home office suitably informed of construction project progress. The USAID Mission has pioneered a Geographic Information System (GIS)-based performance monitoring system under which project information data are entered by project managers. This system allows almost immediate retrieval of data on any given activity. Having ready access to this information on a daily basis allows effective and responsible stewardship of U.S. Government resources.

The USAID Mission conducts portfolio reviews several times a year, and publishes a report detailing the status of each activity twice a year. In addition to periodic audits, the Mission, with congressional encouragement, has developed a robust risk assessment strategy. All Mission institutional contracts and grants are audited on an annual basis by local accounting firms under the guidance and direction of USAID's Inspector General.

With respect to monitoring and oversight of the two \$20 million cash transfers to the PA (in July 2003 and December 2004), the USAID Mission incorporated the following safeguards into the agreements:

- All funds are kept in a segregated dollar account in Ministry of Finance's (MoF) name.
- Withdrawals require signature by two MoF officials.
- Before funds may be withdrawn, PA must describe the specific uses and get USAID's approval.
- Construction contracts are awarded by municipalities using competitive bidding procedures.
- USAID approval is required before each construction project begins.
- Before each project begins, USAID engineers visit the project site to review site conditions, drawings and specifications, and budget estimates.
- After each project ends, USAID engineers verify that the project was completed as expected.
- USAID reviews quarterly reports from the MoF.
- The Regional Inspector General (RIG) conducts quarterly audits to ensure compliance with all of the above-mentioned procedures.

*Question:*

*3. Has the Administration reviewed section 1003 of the Anti-Terrorism Act to determine whether the PLO should be allowed to continue to maintain an office in the US? Would any determination also include the PLO observer office at the United Nations? Has the Administration determined yet whether the PLO is to be re-designated as a terrorist organization?*

*Response:*

Last April the President exercised his authority to waive the application of section 1003 to permit the PLO office in Washington, DC to continue functioning for another six months. He did so because the operation of section 1003 "is a serious impediment to the United States playing an effective role in facilitating crisis management as well as peacemaking and is thus important to the national security interests of the United States." This issue will be reviewed again prior to the expiration of the current waiver in October, 2005.

The PLO observer mission to the UN, the operation of which falls within the scope of the United States's UN headquarters obligations, is not covered by section 1003.

*Question:*

*4. How do we ensure that contributions to the Palestinians are used to create new engines of social and economic development for Palestinian society as opposed to paying staff salaries and providing emergency assistance? Has the extensive track record of corruption within the PA resulted in the reluctance of donors to continue to work within these structures?*

*Response:*

Following the election of President Abbas and in support of his efforts to fight terror and pursue a peaceful, negotiated settlement with Israel, the Administration is committed to supporting reform of Palestinian institutions and expanding economic opportunities for the Palestinian people. The \$200 million in supplemental assistance will assist Palestinians with institution building, civil society strengthening and infrastructure development—necessary foundations for emerging democracy. In addition, it will help the Palestinians address economic and technical issues as they coordinate with Israel to ensure successful Gaza disengagement.

USAID maintains a close accounting of all ESF funds for the West Bank and Gaza, and we have confidence in the fiscal accountability and transparency established by Palestinian Authority Finance Minister Fayyad. Working with the country team, USAID carries out background checks on all Palestinian NGOs that are recipients of funds to ensure that there are no links to terrorist organizations or to organizations that advocate or practice violence.

With regard to donor support of the PA generally, the World Bank's Reform Trust Fund (RTF) provides a mechanism through which donors can make contributions to the PA. Over \$100 million has been contributed to the PA through the RTF to date. The RTF sets benchmarks for the PA in the areas of transparency and accountability that must be met by the PA in order for funds to be released. The PA has been successful in meeting these benchmarks.

*Question:*

*5. In section 301(c) of the 1961 Foreign Assistance Act (PL 87–195) as amended, Congress has directed that “No contributions by the United States shall be made to [UNRWA] except on the condition that [UNRWA] take all possible measures to assure that no part of the United States contribution shall be used to furnish assistance to any refugee who is receiving military training as a member of the so called Palestine Liberation Army or any other guerrilla type organization or who has engaged in any act of terrorism.”*

*What actions have been undertaken to ensure the proper implementation of section 301(c)? Has the State Department defined the key terms used in section 301(c)? What criteria does the State Department utilize when determining whether UNRWA is in compliance with this statute, and that no agency can guarantee that none of the money was reaching Palestinians who are receiving training in the PLO or otherwise facilitating terrorism?*

*Response:*

UNRWA is the largest provider of assistance to the 4.2 million registered Palestinian refugees in Syria, Lebanon, Jordan, the West Bank, and Gaza, a large number of whom live in poverty. United States support for UNRWA helps provide them education, health care, housing, and social services. The Government of Israel supports UNRWA and works with top UNRWA officials to coordinate the delivery of humanitarian assistance in Gaza and the West Bank.

Assistant Secretary of State for Population, Refugees, and Migration Arthur E. Dewey regularly discusses section 301 (c) issues with UNRWA's Commissioner General. The State Department's regional refugee coordinator based at our embassy in Amman, Jordan also monitors UNRWA's compliance with this legislation. The Commissioner General of UNRWA sends a semi-annual report to the State Department documenting any abuses, or attempted abuses, of UNRWA facilities.

In addition to regular monitoring of section 301 (c) by the State Department, in 2003 Congress directed the General Accounting Office to send a team to the Middle East to investigate UNRWA's compliance with this legislation. Further, the United States funds a program in the West Bank and Gaza to help ensure that UNRWA's facilities are not being misused for political purposes or militant activity. Operation Support Officers (OSO's) from this program visit and inspect UNRWA facilities every day. The constant vigilance of the OSO's helps ensure the neutrality and integrity of these installations.

*Question:*

*6. In 2003, Congress approved \$20 million in direct funding to the Palestinian Authority—in addition to \$127 million sent through the United Nations and private aid*

*groups—and it stipulated that outside auditors must be able to monitor how the money was used. Have our auditors been provided access to the PA's records detailing where the money was spent? Is the Administration considering dispatching a special envoy to ensure financial accountability within the PA? Please elaborate.*

*Response:*

In July, 2003, \$20 million from the Wartime Supplemental Appropriations Act was transferred to the Palestinian Authority (PA) through a "Cash Transfer Grant Agreement" between the PA (represented by the Ministry of Finance) and the U.S. Government (represented by USAID). Use of the \$20 million was subject to a variety of controls and monitoring mechanisms.

Under the terms of the agreement, up to \$9 million could be spent on the financing of utility payments. On August 28, 2003, the USAID West Bank/Gaza mission approved the use of \$9 million to pay the Israeli Electric Company for bills owed by the PA. The PA made the payment on the same day.

For the remaining \$11 million of the Grant, the Ministry of Finance has proposed 65 projects—25 in the West Bank and 40 in Gaza—with a total estimated cost of \$10,878,280. Most of the projects involve repair and rehabilitation of roads, water and wastewater facilities, and municipal halls.

On September 22, 2003, following site visits by USAID staff engineers, USAID approved 30 projects, totaling \$4,410,000. On October 21, 2003, USAID approved an additional 11 projects totaling \$1,310,000. This brought the total of approved projects to 41, with an estimated cost of \$5,720,000. 24 projects (\$5,158,280) proposed by the Finance Ministry have not yet been approved. Several of these will likely be approved once project designs and cost estimates are completed by the Ministry and reviewed by USAID engineers. The Finance Ministry will propose substitutions for any projects that are rejected.

Funds for a given project are drawn down by the Finance Ministry in five tranches, corresponding to work completed. The following mechanisms, incorporated into the Agreement and subsequent Implementation Letters, allow USAID to monitor the use of the money:

- The Ministry of Finance has certified that none of the money will go to anyone involved in "armed hostilities or other acts of violence" or for the purchase of military or police equipment;
- The Ministry has established a separate bank account solely for this money, so as to ensure it will not commingle with funds from any other source;
- The Ministry has sent an authorization letter to its bank, authorizing USAID to access directly information about the account;
- The PA has agreed to keep detailed records and provide them for USAID to review and audit;
- Contractors are vetted using standard USAID procedures;

*Question:*

*7. It has been reported that the US will be providing training and support to a new Palestinian security apparatus. What type of training will they receive? What are the components of a security plan, structure, chain of command, which is being developed for the Palestinian security apparatus? Will the Administration be seeking separate funding for the coordinator and the activities of the team working on the Palestinian security plan? Where will the funds be coming from?*

*Response:*

On March 1, Secretary Rice appointed General Ward as the U.S. Security Coordinator to support efforts to reform and restructure the Palestinian security services and to coordinate the efforts of the international community to make that crucial task a success. General Ward will lead a team of advisors and will report back to Secretary Rice on the progress of his mission. His mission will be supported by the U.S. and by international donors. Given the very recent appointment of Gen. Ward, the details regarding the mission and its funding components have yet to be finalized. We would be happy to report back on the progress of the Ward Mission as it develops.

*Question:*

*8. How would U.S. security assistance to the PA be conditioned, and how will this be articulated to the PA? Would the United States enter into a memorandum of understanding with the Palestinian Authority on the nature and conditions of technical and other assistance provided to that body?*

*Response:*

We are at a moment of opportunity to make progress toward the President's two-state vision. We have sought to capitalize on this opportunity through the appointment of U.S. Security Coordinator General Ward, who will help coordinate the reform and restructuring of the Palestinian security services. He will also coordinate the international community's security assistance in the form of training, equipment, and resources for the reform efforts. Any U.S. direct assistance to the Palestinian Authority will be done in close consultation with the Congress and in accordance with existing law and regulation. The United States Government has no plans to enter into a memorandum of understanding with the Palestinian Authority, although a number of accountability measures have been previously agreed upon and are already in place.

*Question:*

*9. Lt. General Ward has recently been named the security coordinator for the Palestinian Authority. Could you please explain the make-up of the team as well as what its specific mission will be? Will the team be comprised solely of US personnel?*

*Response:*

General Ward has recently been appointed the U.S. Security Coordinator, to lead and coordinate U.S. and international efforts to assist the Palestinians in reforming and restructuring their security services. He is providing a focal point for other international security assistance to train, equip and help the Palestinians rebuild their forces. His mission will greatly enhance our capacity to support and encourage necessary Palestinian security force reforms. Upon arriving in the region this week, he will meet with Palestinians and Israelis, assessing and planning what must be done to make this happen. The composition of his team has not yet been determined.

*Question:*

*10. With regard to the reform of Palestinian security services, will we oppose the inclusion in the security services and in any newly organized Palestinian Authority, of anyone involved in violent attacks on Israelis within the Green Line, or for that matter, the Karine-A incident, for example? What criteria has been established for the recruitment of Palestinian security personnel?*

*Response:*

President Abbas has made clear his commitment to end the violence and terror and to pursue a peaceful resolution of this conflict. He has taken concrete steps to take control of the security situation, and we will continue to ensure that this remains one of Abbas' top priorities. Reform and consolidation of the Palestinian security services have been goals of the United States' for some time. Part of that process is a proper vetting of individuals in the security services. General Ward will be closely engaged in President Abbas' security reforms, offering training and support, and he will report back to Secretary Rice on Abbas' progress.

*Question:*

*11. What commitments has the President received from our Arab allies on both the financing of and other support to Palestinian terrorist organizations? More specifically, what steps is Egypt taking to crackdown on the smuggling of illegal weapons into the West Bank and Gaza? Does the United States have any independent assessment about how illegal weapons are being smuggled into the West Bank and Gaza?*

*Response:*

We have made it clear to our Arab allies that support for Palestinian terror groups such as Hamas directly undermines the prospects for peace. We are actively working with them to stop the flow of financing from private individuals and groups to these organizations and to support President Abbas' efforts to eliminate the terrorist infrastructure.

Egypt has been a constructive partner and mediator on issues specific to the Israeli-Palestinian conflict, and we will continue to support efforts by them, the Israelis, and the Palestinians on how to effectively combat, and ultimately stop, the illegal smuggling of weapons into the Gaza Strip.

*Question:*

*12. What knowledge do you have about the use, in operations against Israel, of techniques and equipment provided by the US to the PA? When training official Palestinian security organizations, how does the government ensure that the materials*

*and knowledge provided to them does not disseminate to militant organizations openly engaged in terror?*

*Response:*

Our plans to support reform of the Palestinian Authority security apparatus will enhance Israel's security, and better enable both sides to fulfill their Roadmap obligations. Part of General Ward's mission is to provide USG oversight of PA security reforms in order to ensure materials and knowledge is not disseminated to groups or individuals seeking to engage in terror against Israel.

*Question:*

*13. The Israelis have compiled over the years lists of Palestinians engaged in terror. Did the government compare those lists with the list of those individuals trained by our government? What are the results of these comparisons? As far as you know, were any officers or other recruits from the PA's security services trained by the U.S. ever implicated with terrorist activities of any sort? How will our assistance to newly-reconstituted Palestinian security services be conditioned to guard against such an occurrence?*

*Response:*

On March 1, Secretary Rice announced the appointment of U.S. Security Coordinator General Ward to lead and coordinate U.S., regional, and international efforts to assist the Palestinians in reforming and restructuring their security services. Among other reforms, General Ward will work with the Palestinian security services to ensure that they employ only individuals committed to helping enforce the cessation of violence and who respect and uphold the rule of law. He will work closely with our Embassy in Tel Aviv and our Consulate General in Jerusalem as he sets up his mission to ensure that candidates for training are properly vetted. He will keep the Secretary of State fully informed as his mission progresses. His efforts on the security front complement our efforts in the areas of political and economic reform.

All U.S. Government assistance to Palestinian security reform will go directly to support General Ward's mission.

*Question:*

*14. To what extent should the European Union or individual European states be involved more directly in the new process? What role does the Administration see for the United Nations in the process?*

*Response:*

The European Union, the United Nations and Russia are our Quartet partners. They are important allies in the search for peace in the Middle East, and like us are committed to the achievement of a just, lasting, and comprehensive peace between Israel and all its neighbors. The Quartet seeks the creation of a democratic, independent, viable state for the Palestinian people. The Quartet is also committed to the security of Israel.

The focus now is a successful Israeli disengagement from Gaza and parts of the northern West Bank. We are working with our Quartet partners to ensure that disengagement is a success, as that can serve to move the two parties back to fulfilling their obligations under the roadmap. We are urging our Quartet partners, including the UN, to offer assistance to the mission of the U.S. Security Coordinator General Ward, who was sent by Secretary Rice to the region to assist in the training, restructuring, and reform of the Palestinian security services.

*Question:*

*15. Can you describe the division of labor between the United States and other Quartet members regarding the training of the Palestinian security services? What other countries will be involved in the training of reformed Palestinian security organs? What will be the role of Egypt and Jordan?*

*Response:*

U.S. Security Coordinator General Ward has been appointed by Secretary Rice to help the Palestinians reform and restructure their security forces, assist the two parties in moving forward on security cooperation, and coordinate the efforts of the international community, including Quartet members and regional partners, in assisting Palestinian security reform efforts. We appreciate Egypt's actions to support peacemaking efforts, and will continue to be in close coordination with them, the Jordanians, and with other key regional and international actors. Quartet members and our Arab allies have been encouraged to offer training, equipment and resources to General Ward's mission.

*Question:*

*16. Will there be a role for the Quartet on security issues? What will this be? Will quartet members other than the US judge whether progress is being made on the security front? Who will decide when and whether the process can move forward from one phase to another?*

*Response:*

We and our Quartet partners are working together closely to provide support for the new Palestinian leadership as it moves forward with its reform efforts. The Quartet partners are supporting our efforts to promote economic, political, and security reform in the PA, including working with the mission of General Ward, the Senior U.S. Security Coordinator. They, like us, are committed to seizing this moment of opportunity and working toward a successful Israeli disengagement from Gaza and part of the northern West Bank and an orderly transfer of authority there to the PA.

General Ward will lead and coordinate U.S., regional, and international efforts to assist the Palestinians in reforming and restructuring their security services. General Ward is working closely with our Embassy in Tel Aviv and our Consulate General in Jerusalem as he sets up his mission. The Quartet and international community have offered support for his mission, including personnel, equipment, and training.

*Question:*

*17. Can you comment on reports that Muhammad al-Abbar, a rich property developer and director of Dubai's department of economic development, has offered to purchase homes and agricultural buildings in Israeli settlements in the Gaza Strip, scheduled to be evacuated according to the Israeli disengagement plan? What was the response in the UAE to his offer? How much has UAE pledged to the PA in development assistance? What has been the actual aid delivery?*

*Response:*

We have seen reports regarding Mr. al-Abbar's interest. There are a number of actors, both from the governmental and private sectors, who intend to help Israel's plan to disengage from Gaza and parts of the northern West Bank succeed. A key element that both sides need to address is, of course, the proper disposition of assets being left behind by settlers, and the best means to ensure the revitalization of the Palestinian economy after Israeli disengagement. The World Bank, both in its technical capacity and in its capacity as the Secretariat of the Ad Hoc Liaison Committee of major donors, has led the coordination of such efforts in the economic context and will continue to do so.

The United Arab Emirates has provided financial support to the Palestinian Authority (PA) in the amount of \$21.5 million, pursuant to pledges made at the March, 2002 Arab League Summit in Beirut. In light of the new PA leadership and its budgetary gap, we are encouraging the UAE to continue to provide support to the PA. We will continue to consult with the UAE and other Arab allies on how best to support the PA in the context of budgetary support and, more generally, to support the President's two-state vision of Israel and Palestine living side by side in peace and security.

*Question:*

*18. At the meeting in London, did Saudi officials give any public indication of a willingness to provide extra funding? If not, did U.S., British, or other officials show a desire to pressure the kingdom?*

*Response:*

The Kingdom of Saudi Arabia has provided budgetary support to the Palestinian Authority in the amount of approximately \$15 million bi-monthly, pursuant to pledges made at the March 2002 Arab League Summit in Beirut and renewed at several subsequent summits. The total Saudi contribution over the past three years is over \$200 million. In light of the new PA leadership and its budgetary gap, we are encouraging the Kingdom of Saudi Arabia and other regional states to step up their assistance to the Palestinian Authority. While the March 1, 2005 London Meeting on supporting the Palestinian Authority was not a pledging conference, the participants strongly encouraged the international community to help address the urgent short-term financing needs of the PA.

*Question:*

*19. Last week, British Prime Minister Tony Blair hosted a conference in London dedicated to garnering support for the Palestinian Authority, which was attended by*

*Saudi Arabia and several other oil-rich Arab countries. These countries reaped unexpectedly high government revenues in 2004 due to increased oil prices. How much of this windfall was offered to bolster the Israeli-Palestinian peace process? To what extent has the Administration viewed these contributions as an indicator of the willingness of many governments the region to secure a settlement?*

*Response:*

The Administration has consulted with our allies, including Arab states, on how to support peace efforts. Arab state contributions since 2002 include: Saudi Arabia, which has consistently provided bi-monthly budgetary support in the amount of approximately \$15 million; Qatar (\$11 million in 2005); Kuwait (\$40 million in 2005); Algeria (\$50 million in 2005); Libya (\$11 million in 2004); and Tunisia (\$2 million in 2004). Several other Arab states made pledges to the Palestinian Authority in 2002, which currently remain unmet.

While the March 1 London Meeting on Supporting the Palestinian Authority was not a pledging conference, the participants strongly encouraged the international community to help address the urgent short-term financing needs of the PA. We are encouraging the Kingdom, and others, to recognize the opportunity that now exists and do what they can to help the PA close its budget gap and support the new PA leadership as it moves forward with reforms and a renewed dialogue for peace.

*Question:*

*20. How much assistance to the PA was pledged by Arab countries last year, and how much was actually delivered? How much of this assistance will be delivered bilaterally to the PA? How much will be administered through multilateral institutions?*

*Response:*

The IMF provides the United States Government with updates on contributions to the Palestinian Authority. Bilateral contributors to the PA's budget since 2002 include: Saudi Arabia, which has consistently provided bi-monthly budgetary support in the amount of approximately \$15 million; Qatar (\$11 million in 2005); Kuwait (\$40 million in 2005); Algeria (\$50 million in 2005); Libya (\$11 million in 2004); and Tunisia (\$2 million in 2004). Several other Arab states made pledges to the Palestinian Authority in 2002, which currently remain unmet. We are encouraging them, and others, to recognize the opportunity that now exists and do what they can to help the PA close its budget gap and support the new PA leadership as it moves forward with reforms and a renewed dialogue for peace.

*Question:*

*21. What steps will be undertaken to change the Palestinian educational system to orient it towards a more democracy-based system, promoting values accommodating tolerance and understanding, as opposed to violence? What do you believe is the proper role of U.S. assistance to the Palestinians in this matter?*

*Response:*

Reform of the Palestinian educational system, particularly in the context of incitement against Israel and Jews, is a priority. The Palestinian Authority is currently finishing the roll-out of revised textbooks for all grade levels. Since 2002, and per a Congressional earmark, the Administration has provided grant support through the Department to the Israel-Palestine Center for Research and Information (IPCRI), a non-profit organization, to review the content of the revised textbooks. In general, the textbooks are a moderate improvement, but more work needs to be done. Through our Consulate General in Jerusalem and USAID mission in Tel Aviv, we will continue to monitor progress and make clear to the PA that educational reforms must continue.

*Question:*

*22. Do you believe that efforts towards reform recently initiated by Abu Mazen will extend to other Palestinian institutions as well? Will it include an expanded role for the Palestinian Legislative Council? Will this include grass-roots anti-corruption efforts?*

*Response:*

Following Mahmoud Abbas' victory in a free and fair presidential election at the beginning of the year, the Palestinian Authority has begun to take positive steps to implement many of the reforms that we have long stressed are critical to the successful implementation of the Roadmap and the establishment of a democratic, stable, and prosperous Palestinian state. We were struck by the robust debate within the Palestinian Legislative Council in recent days over the shape of the new cabinet,

and the insistence of a majority of Council members that ministers be free of the taint of corruption and cronyism that has long plagued the Palestinian Authority. General Ward's presence on the ground, working closely with the new Minister of Interior, General Nasir Yusuf, will provide us with a greatly enhanced opportunity to support crucial Palestinian security reform.

Palestinians will go to the polls again this year to elect a new Legislative Council for the first time in nearly a decade. These elections will be another strong signal in favor of democratic reform throughout the region and will be a critical test for President Abbas and his reform agenda. We anticipate that the issue of internal reform and corruption will feature prominently in the debate surrounding the upcoming Legislative Council elections to be held this year.

*Question:*

*23. How do we shift the emphasis in the Palestinian power structure away from a focus on the importance of the individual politicians and toward the importance of the institutions themselves?*

*Response:*

As the President has made clear, in the post-Arafat era the Administration is committed to supporting Palestinian institutions committed to peace and reform. Continued reforms by the Palestinian Authority (PA), especially in the area of security; the various electoral processes currently in play, including municipal and legislative elections; and assistance from the USG and the international community aimed at supporting Palestinian reform, give the Palestinian people the best chance for a government that supports their legitimate aspirations. In this light, the President's supplemental request for \$200 million in assistance for the Palestinians will help Palestinians build institutions and strengthen civil society—necessary foundations for emerging democracy.

*Question:*

*24. Has the PA launched an investigation into the whereabouts of the millions of dollars that Arafat and his aides stole and sequestered in numerous bank accounts and other holdings throughout the world? Please elaborate.*

*Response:*

According to the IMF, an audit of the Palestinian Authority conducted in 2003 by Minister of Finance Salam Fayyad revealed that between 1995 and 2000, PA Chairman Yasser Arafat had diverted \$900 million in public funds to a special bank account under his direct control. The IMF and others have credited openness and transparency in the Palestinian Authority's accounting under Minister Fayyad for disclosing these asset transfers. The Palestine Investment Fund, established in October 2000 as a separate legal entity, conducted a valuation (carried out by Standard & Poor's) of all public assets and investments held by the PA. As a result, \$800 million of the \$900 million in diverted funds has been accounted for, with the difference attributed to the change in asset valuation.

In recent years, the Palestinian Authority has substantially improved its track record of fiscal transparency and accountability. The Palestinian Ministry of Finance recently hired PriceWaterhouseCoopers to conduct an audit of PA finances as they work to establish their own external audit capacity in accordance with the benchmarks established by the World Bank's Public Financial Management Reform Trust Fund. This trust fund releases budget support from international donors to the Finance Ministry, contingent on the PA's achieving semi-annual benchmarks.

It is possible that there are additional assets from the era of Chairman Arafat that remain unaccounted for at this point. Fayyad has expressed his willingness to work with the U.S. Government and the World Bank to find this stolen money and to improve the transparency and accountability of the PA; given Fayyad's track record, we have a good degree of confidence in him. In addition, the PA is very interested in cooperating with the USG on combating terror funding in the Palestinian territories, and has requested USG technical assistance in setting up a financial intelligence unit. We are consulting with the Treasury Department on how best to proceed with providing this kind of support.

*Question:*

*25. Has the Palestinian Authority developed a plan to construct and to administer courthouses, police centers and prison facilities in the West Bank and Gaza? What steps will it take to ensure that the prisons do not become "revolving doors" once again?*



*Response:*

The restoration of law and order will serve the Palestinians interest by creating the security and stability necessary to return to normal life. Augmenting security in the Palestinian areas will allow Israel to lift restrictions on Palestinian movement. Increased security and rule of law will also enable investment, create jobs, and encourage economic growth. Accordingly, our USAID mission to the West Bank and Gaza plans to fund the construction of courthouses and programs to train judges and prosecutors. In addition, U.S. Security Coordinator General William Ward will work with the Palestinian Authority to reform and restructure the Palestinian security forces, and will coordinate international offers of assistance to help reform the Palestinian security structures.

*Question:*

*26. Can you elaborate on plans by the PA to bolster the legitimacy of government institutions by holding elections to the Palestinian Legislative Council in July 2005? When will it complete the program of rolling local elections across the West Bank and Gaza?*

*Response:*

Elections for the Palestinian Legislative Council—the first since 1996—are scheduled for July 17; additional rounds of municipal elections throughout the West Bank and Gaza are expected to be held in May and in August. The renewal of these bodies through elections is an essential part of the building of Palestinian democratic institutions.

*Question:*

*27. Addressing the 10th session of the Palestinian Legislative Council (PLC) Abu Mazen confirmed that the Palestinian efforts in security will remain motionless without implementing the Road Map obligations and launching the final status negotiations. Can you comment on this development? Will the Administration adjust its praise for Abu Mazen to reflect this position? Please elaborate.*

*Response:*

Since his election in January, President Abbas has shown his commitment to improving the security situation in the West Bank and Gaza by making clear he will hold his security chiefs accountable for halting attacks on Israelis and firing them if they fail to perform. His strong condemnation of the February 25 terrorist attack in Tel Aviv was a welcome sign that he will not tolerate terrorist tactics. However, much remains to be done, and the PA must live up to its responsibilities to improve the security situation in Gaza and the West Bank and dismantle terrorist infrastructure.

General Ward will work closely with the Palestinians to help them continue to make progress reforming their security apparatus. The U.S. Government has been clear and consistent with President Abbas: there must be an end to terror and violence, and dismantlement of terrorist infrastructure, as called for in the roadmap. That is the only way to realize President Bush's vision of two states, Israel and Palestine, living side by side in peace and security.

*Question:*

*28. The Palestinian government includes "old guard" politicians such as Nabil Shaath who have long been accused of corruption or mismanagement. Shaath, formerly foreign minister, become deputy prime minister in the new government. To what extent does resistance to reform and financial accountability trickle down to contractors and businesspeople? How can Abbas overhaul dysfunctional agencies and downsize a bloated government payroll of 120,000, without aggravating the unemployment problem?*

*Response:*

In the wake of the election of President Mahmoud Abbas in February, the Palestinian Authority has renewed its focus on political reform. Issues of democracy, governance, and institutional reform are all key to building a strong, democratic Palestinian Authority that will be prepared to take control of Gaza after Israel's disengagement. The new PA leadership is committed to institutional reform. A new electoral law is being discussed in the Palestinian Legislative Council. Important strides have already been made by Minister of Finance Fayyad to improve the transparency and accountability of the PA. A revised Palestinian Basic Law is serving as a solid interim constitution until a full constitution can be drafted. Good governance involves more than legislative and electoral reform; it involves reform of all governmental institutions. The PA has made great strides in reforming its handling

of government finances. Over the past year and a half there has been significant improvement in the transparency and accountability of PA finances.

Many very difficult, very serious issues remain, among them re-establishment of the rule of law, fighting terrorism, reforming the judiciary, and addressing very significant issues of pension and civil service reform. We will continue to press President Abbas to make reform and good governance his top priorities.

*Question:*

*29. Can you comment on reports that Abbas had ousted many of the top brass in the security services in the Gaza Strip? If these reports are true do you believe that these removals signal that Abu Mazen is serious about extending his authority over the sprawling Palestinian security services or are they aimed at eliminating rivals of former Gaza security chief Mohammed Dahlan rather than curbing terrorism in the Gaza Strip?*

*Response:*

Recent PA security reforms have had positive impact on the overall security environment between Israelis and Palestinians. Immediately after his election as President, Abu Mazen moved quickly to react to terrorist incidents, including deploying Palestinian troops in northern Gaza to try to stop Qassam rocket incidents. He also unequivocally condemned the February 25 Tel Aviv bombing. He recently appointed a new Minister of Interior, General Nasir Yusuf. That said, the U.S. has stated clearly that Abu Mazen needs to continue his efforts to reform and restructure the PA security services. Dismantlement of the terrorist infrastructure should be the central goal of such reform efforts. The PA security services need to be brought under unified civilian control and trained to enforce and respect rule of law.

The U.S. has appointed General Ward to lead and coordinate U.S. and third-country (EU, Arab, other) efforts to assist Palestinian security reform. General Ward's presence on the ground, working closely with Minister Yusuf, will provide us with a greatly enhanced opportunity to support crucial Palestinian security reform.

*Question:*

*30. Does Nasser Yousef, the new interior minister and a long-time associate of Arafat exert full authority over the three security arms? Please elaborate.*

*Response:*

We expect that the new Minister of Interior, General Nasir Yusuf, will work steadily toward crucial Palestinian security reform. He is trying to consolidate the Palestinian security services into three major branches. U.S. Security Coordinator General Ward will work with General Yusuf in the consolidation and restructuring of the Palestinian security services and in efforts to enhance their capability, discipline, and professionalism.

President Abbas has affirmed his commitment to improving the security situation in the West Bank and Gaza by making clear he will hold his security chiefs accountable in their performance in halting attacks on Israelis and that he will fire them if they fail to perform. We are very encouraged by this sign that President Abbas will hold his security services

*Question:*

*31. It has been reported that, in contrast to the situation in the West Bank, the IDF is relatively pleased with the functioning of the Palestinian security services in the Gaza Strip. Can you comment on reported Israeli accusations that in the West Bank the PA is still not performing what Israel describes as a "thwarting procedure"—arresting suspected terrorists, interrogating them and putting them on trial? What do you believe accounts for the differing response?*

*Response:*

The key issue for the PA remains performance, especially on security issues in both the Gaza Strip and the West Bank. The PA must take action to disarm and dismantle terrorist organizations, and consolidate the Palestinian security forces. The announcement at Sharm el-Sheikh on Feb 8 by Prime Minister Sharon and President Abbas that Palestinians would stop all acts of violence against all Israelis everywhere and Israel would cease all its military activities against all Palestinians everywhere was a welcome step, and we are encouraging both sides to fulfill the commitments they made at Sharm el-Sheikh.

President Abbas has taken some good concrete first steps towards reforming the security services, including making clear he will hold his security chiefs accountable in their performance in halting attacks on Israelis and firing them if they fail to perform. However, the PA must live up to its responsibilities of improving the secu-

rity situation in PA-administered areas and dismantling the terrorist infrastructure as called for in the roadmap.

*Question:*

*32. Please elaborate on reports that Hezbollah's longtime supporters in Iran have increased their support for attacks on Israel in their attempts to torpedo any peace negotiations between the Israelis and Palestinians?*

*Response:*

Hizballah is designated a Foreign Terrorist Organization under U.S. law. Hizballah provides guidance and financial and operational support for Palestinian extremist groups engaged in terrorist operations in Israel and the West Bank and Gaza Strip. Hizballah has several thousand supporters and a few hundred terrorist operatives. It receives financial, training, weapons, explosives, political, diplomatic, and organizational aid from Iran. Hizballah also receives funding from charitable donations and business interests.

In the past, Iran has maintained a high-profile role in encouraging anti-Israeli activity, both rhetorically and operationally. Supreme Leader Khamenei praised Palestinian resistance operations, and President Khatami reiterated Iran's support for the "wronged people of Palestine" and their struggles. Matching this rhetoric with action, Iran provided Lebanese Hizballah and Palestinian rejectionist groups—notably HAMAS, the Palestine Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command—with funding, safe-haven, training, and weapons in 2003 and 2004.

In February 2005, at the Palestinian donors conference in London, Secretary Rice said that "when it comes to Iranian support for terrorism, I would strongly hope that all of those who . . . desire peace in the Middle East, who desire a peace between Israelis and Palestinians, recognize that the Iranians are one of the strongest supporters of the rejectionists in that process, whether it's Hezbollah or Iranian help to the Palestinian rejectionists, and you can't have it both ways. You can't say that you want peace between Israel and the Palestinians and not do everything that you can to disable the Palestinian rejectionists and Hezbollah."

*Question:*

*33. Please elaborate on new reports stating that Abu Mazen is planning to send, or has sent a top Palestine Liberation Organization official to Lebanon to meet with leaders of Hizballah.*

*Response:*

According to the press, Abu Mazen's December 2004 visit to Lebanon included stops at several Palestinian refugee camps and meetings with various Lebanese officials. According to press reports, Abu Mazen also sent PLO representatives to Lebanon in February 2005 to urge compliance with the cease-fire agreed to with Israel at Sharm al-Sheikh.

The U.S. government will support Abu Mazen as he attempts to eliminate the terrorist infrastructure in accordance with Palestinian obligations under the roadmap. The terrorist threat comes from both domestic Palestinian groups and those funded and supported from outside the West Bank and the Gaza Strip. Designated a Foreign Terrorist Organization under U.S. law, Hizballah engages in terrorist operations in Israel, the West Bank and Gaza. We have been very clear that support for terror must end, and that we all have responsibilities to make the most of this opportunity for progress. As Secretary Rice said at the March 1 London Meeting on Supporting the Palestinian Authority, "all nations committed to peace must now join together to help the Palestinians prevent terrorist, and the states that support them, from killing this hopeful moment."

*Question:*

*34. Can you comment on recent reports that Palestinian Authority security officials are fearful that Hizballah and Iran were planning to kill Abu Mazen in order to thwart attempts to revive the peace process? Please elaborate.*

*Response:*

While this past year has brought forth a dramatic shift in the political landscape of the Middle East, including the election of Abu Mazen, this moment of transformation is very fragile. There are still committed enemies of peace, particularly the Government of Iran, which is the world's most active state sponsor of terrorism. We have repeatedly stated our concerns about Iran's continuing efforts to use terrorism to subvert democratic governments and to impede the progress of peace efforts between Israel and the Palestinians.

In the past, Iran has maintained a high-profile role in encouraging anti-Israeli activity, both rhetorically and operationally. Supreme Leader Khamenei praised Palestinian resistance operations, and President Khatami reiterated Iran's support for the "wronged people of Palestine" and their struggles. Matching this rhetoric with action, Iran provided Lebanese Hizballah and Palestinian rejectionist groups—notably HAMAS, the Palestine Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command—with funding, safe-haven, training, and weapons in 2003 and 2004.

The U.S. government has made it clear that it supports Abu Mazen's efforts to fight terrorism and to fulfill other Palestinian obligations under the roadmap. Secretary Rice praised Abu Mazen's "commitment to democratic reform" during the March 1, 2005 Quartet meeting in London. She acknowledged that "there are still groups and individuals who will literally kill to prevent peace," but underscored the commitment of the U.S. Government to help Abu Mazen withstand their challenge. She said: "I look forward to working with you and your government at this time of great possibility for your people and for your region"

*Question:*

*35. What steps is the Administration taking to pressure or convince Abbas that the terrorist infrastructure must be confronted, and not negotiated with? What will be the price of failing to do so? How do we ensure that we will not experience a remilitarization of the West Bank and Gaza by the Palestinian Authority under the rubric of fighting terrorism?*

*Response:*

The United States is working with Palestinians and Israelis to improve security on the ground. U.S. Security Coordinator General Ward has been charged with helping the Palestinians rebuild and restructure their security services so that they are better equipped to fight terrorism. General Ward is working with the Palestinians to help them fulfill all their obligations under the roadmap, especially sustained, effective operations to stop terrorism and dismantle terrorist capabilities and infrastructure. Ensuring security for Israelis and Palestinians demands an immediate, strong and continuous effort to combat terrorism.

Moreover, the United States government is committed to supporting the new Palestinian leadership as it takes steps to address security, governance and economic reforms. By helping President Abbas strengthen Palestinian civil society, build new institutions, and strengthen public welfare, we are assisting him in building the foundation of an emerging democracy. Increased economic and social opportunity will help counter the appeal of terrorism and violence, and limit the appeal of terrorist organizations. We are reassured by President Abbas' strong words of condemnation of terrorism; he strongly denounced, for example, the February 25, 2005 terrorist attack on the Stage Club in Tel Aviv. Subsequently, in his remarks at the March 1 London Meeting on Supporting the Palestinian Authority, he said: "I am investing 100% of my efforts to bring about the cessation of violence against Israel."

Secretary Rice, speaking in London in early February 2005, reiterated her support for the new Palestinian leadership, pointing to "the Palestinian Authority's commitment to democratic reform."

*Question:*

*36. Can you comment on reports that Russia is considering resuming sales of military equipment to the Palestinian Authority? Have the Russians indicated what sort of weaponry or equipment Russia was considering? What has been the Israeli response? Please elaborate.*

*Response:*

Russia, as a member of the Quartet, has a vital role—to help Israelis and Palestinians make progress toward implementation of their obligations under the Roadmap. The Quartet continues to support the progress made by both the Israelis and the Palestinians and condemns terrorist tactics in the strongest possible terms. The Quartet is working with other members of the international community to help contribute to efforts to achieve peace.

Russia—as well as our other Quartet partners, the European Union and the United Nations—has offered support to the mission of U. S. Security Coordinator General Ward. Ward's mandate is to help restructure and reform the Palestinian security services and to coordinate international efforts to assist in Palestinian security reform. In doing so he will work closely with the individual Quartet members to ensure appropriate support for effective PA security forces that are empowered to fight terror.

*Question:*

37. Have we indicated to the Palestinian Authority that the Tanzim and al-Aqsa Martyrs Brigades—organizations that are part of Fatah organization—must be shut down? Will the revolving doors on PA prisons be locked?

*Response:*

Designated a foreign terrorist organization (FTO) under U.S. law, the Al-Aqsa Martyrs Brigades has carried out shootings and suicide operations against Israeli civilians and military personnel in Israel, the West Bank, and Gaza, rocket and mortar attacks against Israel and Israeli settlements from the Gaza Strip, and the killing of Palestinians suspected of collaborating with Israel. Al-Aqsa has killed a number of US citizens, the majority of them dual US-Israeli citizens, in its attacks. The Tanzim are a similar Fatah terrorist group, although they are not designated a FTO.

The United States is working with Palestinians and Israelis to improve security on the ground. U.S. Security Coordinator General Ward will work with the Palestinians to help them fulfill their obligations under the roadmap, especially sustained, effective operations to stop terrorism and dismantle terrorist capabilities and infrastructure. As President Bush recently said, “Building true security for Israelis and Palestinians demands an immediate, strong and sustained effort to combat terrorism in all its forms.” General Ward will also work with the Palestinian Authority to enhance the security of civil institutions in the West Bank and Gaza such as prisons.

The new PA and PLO leadership have stated that restoring law and order in the West Bank and Gaza is their top policy priority. President Abbas has taken some concrete steps towards reform of the Palestinian security services, including replacing senior officials, passing a security pension law, decreeing the consolidation of the security forces under the authority of the Minister of Interior and cooperating fully with U.S. Security Coordinator Ward.

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RESPONSES FROM THE HONORABLE JAMES KUNDER, ASSISTANT ADMINISTRATOR FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, TO QUESTIONS SUBMITTED FOR THE RECORD BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIR, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA

*Question:*

1. What is the policy direction being given by State to USAID in selecting programs, contractors, and grantees? What criteria and screening process is in place to assess the eligibility of principal contractors, sub-contractors, and grantees?

*Response:*

- To West Bank/Gaza Mission Office of Acquisition and Assistance’s knowledge, State has not provided any specific policy guidance in making the contractor/grantee selections. Criteria for selection of contractors and grantees are therefore governed by the Federal Acquisition Regulations (FAR) and AID Acquisition Regulations.
- The criteria as to those organizations which are eligible to participate in each procurement action are established in the solicitation document. In particular, these categories may include, as appropriate for each requirement: qualified U.S. and non-U.S./international non-profit organizations (501(3)(c) registered), for-profit organizations (with the caveat that neither profit nor fee may be provided under Assistance awards), institutions of higher education, or private voluntary organizations registered with USAID. Please also note that specific requirements may also be directed toward Public International Organizations.
- The criteria as to determining the eligibility for award include: for Acquisitions (contracts), “responsibility” determinations as required by FAR Par 9; for Assistance (grants and CA’s), equally “responsibility” (or, as more often referred to, “grant worthiness”) determinations as required by Automated Directives System 303 and 22 CFR 226. Integral to this process is the determination of whether a partner is included on the Lists of Parties Excluded from Federal Procurement and Nonprocurement Programs (Lists), which identifies those parties excluded throughout the U.S. Government from receiving Federal contracts or certain sub-contracts and from certain types of Federal financial and nonfinancial assistance and benefits.

- Furthering item (c), contractors/recipients are tasked with establishing the “responsibility” of proposed sub-awardees (i.e., subcontractors/subgrantees).
- In addition, the Mission conducts a ‘vetting’ of proposed local recipients of awards and sub-awardees as provided under section (c) of the Terrorism Prohibition special provision. This searches U.S.G. databases for any affiliation with terrorist activities, and applies to all principal officers of the recipient organization. In addition, all grantees are required to sign the ‘Anti-terrorism Certification.

*Question:*

*2. In a January 4, 2005 Congressional Notification, the Administration announced that it was providing \$20 million in economic support funds (ESF) for budgetary assistance to the PA. In addition, it announced that USAID was providing \$14 million of “technical assistance, training and commodities” to support the Palestinian elections. What specific NGOs and organizations were the recipients of this assistance? Can you certify that it does not reach the so-called “political” branches of Palestinian terrorist organizations? Are these nonprofit organizations still audited under OMB’s A-133 audit process? If so, how often? Please elaborate on the process.*

*Response:*

- USAID ultimately committed \$10.8m from existing funds to support Palestinian elections. Of this figure, funds were distributed as follows:
  1. Election observation. Implementer: National Democratic Institute. \$1.2m (Presidential elections); \$1.7m (local elections); \$1.2m (planned), parliamentary elections
  2. Central Election Commission commodity and technical assistance. Implementer: IFES (formerly International Foundation for Electoral Systems). Program consisted of technical aid and commodity purchases by IFES for the Central Elections Commission for Presidential and Parliamentary elections (\$3.7m).
  3. Parliamentary and local elections. \$2m (planned) Implementer: International Republican Institute. Training and technical assistance to support women’s participation, political polling and leadership development.
  4. Presidential, parliamentary, and local elections. \$1m (planned). Implementer: Chemonics (Tamkeen project). Subgrants and technical assistance to Palestinian Non-Governmental Organizations (NGOs) for voter mobilization, education, and information programs.
- With the sole exception of Chemonics/Tamkeen subgrants (see below), all USAID assistance in this context is either training, technical assistance, or commodity purchase on behalf of other organizations. Thus, USAID can certify that no funds are being provided to political branches of Palestinian terrorist organizations.
- All USAID partners are subject to audits under the Mission’s Congressionally mandated 100% audit plan. Additionally, Palestinian NGO sub-grantees under the Chemonics/Tamkeen project are subjected to institutional audits and financial control by Chemonics. Additionally, all sign the USAID Anti-Terrorism certification.

*Question:*

*3. In Congressional Notification #40 that was submitted to Congress on February 3rd, USAID stated that it was using \$8.9 million to “create jobs and build a community infrastructure (with a focus on schools and youth centers).” What mechanisms does AID have in place to ensure that these facilities are not used by terrorist organizations for recruiting? How does AID also ensure that incendiary propaganda is not being disseminated or produced at these locations?*

*Response:*

- The activities will be implemented by American Private and Voluntary Organization’s (PVOs) and will be closely monitored by the Mission. All our partners have signed Memoranda Of Understandings (MOUs) with the concerned Palestinian Authority (PA) ministries such as the Ministry of Education and the Ministry of Local Government to manage these activities. Among other things, the facilities may not be named after individuals who supported or committed acts of terrorism. The MOUs clearly state that it is the responsibility of the PA ministries (mainly the Ministry of Education since most of these facilities are classrooms) to ensure that these facilities are well used. The Mission also recently signed an MOU with the Ministry of Education regarding the management and utilization of USAID-funded educational facilities. The MOU’s usually include the following articles:

1. Any property financed by USAID shall be used effectively for the assistance purpose described.
  2. The Ministry of Education accepts responsibility for school utilization.
  3. The Ministry of Education accepts responsibility to furnish and equip the constructed facilities to ensure that they are fully functional.
  4. The Ministry of Education accepts responsibility for maintenance of the constructed facilities to ensure maximum benefit.
- Our partners maintain regular oversight over the implementation of these activities. Our partners also have follow-up plans where they monitor the facilities for a long period after their completion to make sure that they are being used effectively. USAID Cognizant Technical Officers's and field engineers maintain regular oversight over the activities.

*Question:*

4. In Congressional Notification #40 that was submitted to Congress on February 3rd, USAID stated that it was using \$7.3 million "to fund university scholarships, and updating/modernization of institutions of higher education in the West Bank and Gaza." What are the criteria for selecting scholarship recipients? How do we ensure that these students are not, and do not become affiliated with terrorist organizations?

- The criteria for selecting scholarship recipients are:
  - GPA equivalent of at least a "B"
  - 30 hours community service each semester
  - Students studying in specific fields of vocational/technical education
  - Students who are financially challenged, as documented by the Universities
  - Students who can pass U.S. government vetting documenting that they have not previously been involved with groups advocating violence.
- Following selection, if a recipient's activities while in school, including any legal actions taken against him/her, are tracked. If there are any questions about these activities, the recipient is vetted again. As part of follow-on, once awardees graduate the granting agency, the Academy for Educational Development encourages students to remain in contact for assistance in looking for jobs. They assist them with resume writing and offer computer work stations so they can find employment.

*Question:*

5. In Congressional Notification #37 that was submitted on February 3rd, there is a planned allocation of FY 05 funds for Private Sector Development. It references two new activities that will be implemented—the Palestinian Agribusiness Partnership Activity and the Palestinian Enterprise Development program and the Palestinian Enterprise Development program. Please elaborate on the purpose and specific results we expect to achieve from these programs. What will be the specific funding breakdown for these? Who is your target?

*Response:*

- The Palestinian Agribusiness Partnership Activity:

The Palestinian Agribusiness Partnership Activity (PAPA) is designed to have rapid impact in creating jobs and export earnings for the Palestinian territories. PAPA is not a conventional agricultural or development program. It relies on mutually beneficial Israeli-Palestinian agribusiness partnerships to quickly transfer efficient production and processing technologies to Palestinian producers and link Palestinian products to high-value markets in the Middle-East and Europe. PAPA is also designed to facilitate the transfer of existing agribusinesses in the Gush Katif area of Gaza and promote additional agribusiness development in Gaza following Israeli withdrawal. The project will provide fixed capital investments and technical assistance for Palestinian firms that collaborate with Israeli firms in meeting program objectives of job creation and export growth.

PAPA consists of three related components, the total of which would, if fully funded, amount to \$83 million. The first component, the Palestinian Agricultural and Agribusiness Rehabilitation (PAAR), is a three year program to foster partnerships between Israeli and Palestinian agribusiness that will expand commercial growth, exports, and employment in the West Bank and Gaza. The estimated value of the PAAR component is between \$11 and \$12 million. The second and largest component, the Gaza Disengagement Program (GDP), will facilitate the security, transfer and operation of commercial Israeli settlement

greenhouses and related complexes to a Palestinian management caretaker entity—to be chosen in consultation with Palestinian and Israeli stakeholders—that will operate and manage the greenhouses so they can be expeditiously privatized. The program will also develop 200 additional hectares for greenhouse horticulture. The proposed budget for this component, which is contingent upon supplemental funding, is \$59 million. The third component, the Palestinian Agricultural Training & Extension (PATE), will provide training and extension services to Palestinian agricultural producers and processors to upgrade food quality and the hygienic and sanitary conditions of processing and post-harvest handling facilities, to facilitate agricultural exports. The estimated budget for PATE, which is contingent upon supplemental funding, is \$12 million.

If fully funded, PAPA is designed to create over 15,000 new jobs and stimulate over \$25 million in new export revenue, mostly in perishable, high-value fruits and vegetables for European and regional markets. The funding sources include: FY04 carryover; FY05 NOA; No Year funds; supplemental funding and FY06 and FY07 NOA. Beyond the economic benefits, PAPA will encourage positive relations between leading Palestinian and Israeli agribusiness firms that could favorably influence political processes.

- The Palestinian Enterprise Development Activity:

The overall objective of the Palestinian Enterprise Development (PED) project is to improve the business operating environment by offering business development services (BDS), strengthening business associations and improving the legal and regulatory environment and policy advocacy capabilities of the private sector. PED also aims to support the growth of competitive industry clusters. A key goal of the PED Program is to expand export growth through trade promotion and capacity building to enable Palestinian businesses to gain access to international markets. This component will focus on improving the competitiveness of enterprises in selected industry clusters, particularly those with favorable export prospects.

The following are the anticipated results under PED:

- Increased employment, income, and investment within targeted clusters
- An increase in the market share of WBG products locally and abroad
- Adoption of improved technologies
- New high-value products developed for export
- Improved quality of products or services
- An increased number of companies using modern business practices
- Increased advocacy by professional associations in targeted sectors for reform
- Increase in the financial and managerial sustainability of business associations;
- An increase in the number of businesses and business associations incorporating transparent business practices and ethical norms

The recipients under PED include small and medium size enterprises, private sector associations and organizations, and key public sector agencies and departments.

PED is estimated to cost \$ 16.2 million. It will be funded as follows:

FY '04 Carry-over	\$1,681,656	
FY 05 New Obligor Authority		\$2,220,916
Supplemental	\$5,000,000	
FY 06	\$5,000,000	
FY 07	\$1,300,000	
FY 08	\$1,000,000	

*Question:*

6. I would like to point to Congressional Notification #37 that was submitted on February 3, because the question is illustrative of broader Congressional concerns. In this notification, under "performance and results", USAID refers to more than 60,000 loans worth over \$24 million provided to Palestinian women entrepreneurs. What has been done with these loans? What are the tangible results? What specific accomplishments can you point to regarding U.S. support of PalTrade, for example, that would merit continued funding of such efforts under the broad category of "private sector development?"



*Response:*

- 'FATEN' has made nearly 64,000 loans to the poorest and most marginalized Palestinian women since it emerged from a micro-finance program launched in the West Bank and Gaza by Save the Children (US) in 1995. Its loans have totaled more than \$27 million, with the average loan size \$427.
- The largest micro-finance institution in the West Bank and Gaza, FATEN currently has 3,319 active clients, 99% of them women, with outstanding loans totaling \$2.4 million.
- FATEN has financed women who want to open a corner grocery store or beauty parlor. It also gives credit to rural women, like the lady who took out a loan to buy a cow and now has nine and a lucrative milk supply business.
- FATEN supports women to sustain businesses vital to the livelihood of their families. FATEN has financed activities in trade (40%), the service sector (25%), production (17%), agriculture (14%), with other activities comprising the remaining 4%. While repayment rates suffered during the early years of the Intifada, FATEN reported a 97.23% repayment rate in 2004.

FATEN offers a range of products to its borrowers. These include:

- *Group Guaranteed Lending and Savings* loans support a wide variety of existing businesses including selling clothes, small grocery stores, selling vegetables, raising animals, knitting, sewing and hairdressing.
- *Individual Loan* serve existing clients whose businesses have grown to require larger loans. The first loan size ranges between \$1,500—\$3,000. Repeated loans can increase gradually to \$10,000 for working capital and/or fixed assets. Loans support a wide variety of businesses including selling clothes, small grocery stores, selling vegetables, raising animals, knitting, sewing and hairdressing.
- *FAST Loan*: It is offered to groups of at least three active clients who have been with FATEN for more than one year. Initially it was called the seasonal loan since it was given to those active clients whose projects required more money during a certain season like the Ramadan Feast, Al-Adha Feast, and the beginning of the school year. Recently, FATEN began to give it to its clients at any time during the year.

*Testimonials:*

Nawal Shoushi, Bethlehem Branch: I'm thirty-eight years old, a mother of five kids. My husband turns to be a handicap after an accident. I found myself bearing big responsibilities, so I decided to start my own business, it was supplying gas jars to the houses in my village "Hosan", but this was of low income. I heard about FATEN and I took successive loans of 200, 300 and 500 JDs (One Jordanian Dinar = US\$ 2) in the Group Guarantee Lending Program, with those loans I bought more jars, and start to supply the whole village with gas. Then I took an individual loan of \$1,500 to improve and expand my business, I began selling stoves and ovens, and I employed my brother also. Lately I start running a grocery contains some foodstuff like sugar, rice . . . etc. With this grocery my sales increased and so my profits, now I'm planning to apply for another individual loan of \$2,000 to buy more grocery goods. FATEN" loans were really helpful, I respect my self because I'm totally independent and I can offer my kids what they need in spite of the recent political situation and siege.

Nawal Amir, Hebron Branch: I'm a mother of seven children; I only finished the elementary classes, but always want to be distinct. Five years ago I started a small business of zootechnics "chicken breeding", at that time my husband was a taxi driver, but now he is unemployed because of the political situation. I joined FATEN since four years, I took successive loans of 150, 200, 300, 500 JDs, so I bought more chicken and other types of birds, and I expand my business with selling chicken forage. I also took seasonal loans for apiculture "beekeeping". Then FATEN gave me the privilege of taking an individual loan of \$2,000. Lately I applied for a loan of \$3,000. I have a great feeling of satisfaction, my enterprise improved a lot; now I have 5000 bird, my husband helps me in my business, and my sons and daughters give a hand at home. I always encourage my friends and relatives to start their own business and to apply for FATEN loans. FATEN helped me to be the distinct women that I always want to be.

Labiba Murad Gaza Branch: I live in Al-Shate' refugee camp in Gaza, I'm a married woman with eight sons; four of them are married. My husband is a fisherman, lately my husband and sons turn to be unemployed because of the political situation. I started my own business six years ago when I borrowed money and get to Egypt to bring clothes and sells them in Gaza. My friends talked me about FATEN, and I took successive loans from the Group Guarantee Lending Program, they were

200,250, 500,600,800JDs, with those loans I was able to improve my business in terms of quality and quantity. During the Intifada, and because of the siege on Gaza, traveling turn to be difficult or even say impossible. So I decided to depend on the local market, and I was able to do it, because of my reputation and the trust between me and my clients. I always try to provide them with what they need. My business was able to survive even under this harsh situation. I always thank FATEN and its employees for their support and advice.

*Question:*

*7. In Congressional Notification #39, dated February 3rd, over \$1 million is Economic Support Funds is allocated to "Support Family Planning Programs" including the "promotion of healthy reproductive behavior." Please elaborate on what U.S. government funds are "promoting" and is this in keeping with the clearly articulated policies of the President and the majority of the U.S. Congress?*

*Response:*

- "The promotion of healthy reproductive behavior" refers to counseling provided to Palestinian couples on child spacing. International public health experts advise that births spaced 3–5 years apart is recommended as one of the best ways to assure the health of the mother and the children. This is also keeping with Ministry of Health policies and guidelines. The population funding is provided in the context of a greater portion of funding for maternal and child health and provided as part of a comprehensive health program. The USAID program does not promote or fund abortions; it is in compliance with the Administration's policies regarding reproductive health."

*Question:*

*8. Mr. Kunder, in your testimony you stated that "By supporting the above activities the USG will strengthen political moderates as well as the institutions of statehood, will provide an alternative source of public services to those offered by Hamas, and will provide tangible, immediate benefits to Palestinians." Please elaborate on this statement.*

*Response:*

- USAID programs are also designed to support US counterterrorism interests. By curtailing the political and economic space available for terrorist organizations, USAID is helping to reduce their credibility and their appeal within the West Bank and Gaza. This is because the Palestinian Authority's own capacity to deliver tangible public services, whilst improving the essential infrastructure and institutions that are required to advance the economy, and the West Bank and Gaza's nascent democracy, still remains severely constrained. In 2004, for example, 85 percent of the PA's budgetary resources were required to pay salaries, pensions, and other welfare transfers. This left only \$160 million in discretionary operating resources for the PA, to support a year's worth of public service delivery, including the development of essential institutions and infrastructure. USAID funded programs which improve the institutions of governance, economic freedom and reform, while delivering water and other essential infrastructure, therefore contribute significantly to the prospects for greater stability in the region—not least by reducing the political, social and economic operating space available for radical Islamic groups.

*Question:*

*9. Mr. Kunder, you stated in your testimony that we have "funded programs to . . . restructure the Ministry of National Economy." On February 24, 2005, the Palestinian Legislative Council (PLC) approved the new cabinet proposed by Prime Minister Ahmed Qurei, which, while often described as technocratic and progressive, included Mazen Sunugrut, who has close, longstanding ties to Hamas, as Minister of the Economy. Would you agree that placing a man with close ties to Hamas in charge of the Palestinian economy does not bode well for the prospects of increased financial transparency and reform in the PA? How can a ministry charged with overseeing the economy and headed by a Hamas supporter be trusted to emulate the tradition of transparency and accountability established by PA Minister of Finance Salam Fayyed? How will this impact our programs aimed at "restructuring" the Ministry?*

*Response:*

- The Mission has been aware of Mr. Sonnoqrot's work for the past five years in different private sector representative bodies including Palestinian Food Industries Association, Palestinian Businessmen Association, Palestinian Free Zones & Industrial Zones Association, Private Sector coordinating Council, National Re-

form Committee, and lately as the chairman of the Palestinian Federation of Industry. During this period, Mazen has proven to be a supporter of the free market economy and among the private sector leaders calling for reform within the PA. He has been a leader in building and supporting the private sector institutions in the West Bank and Gaza. His advice and opinions regarding building the Palestinian economy has almost always coincided with USAID's approach. In addition, he appreciates American assistance to the Palestinian people, and is a public activist in combating financial mismanagement and actions by the PA that hinder the development of the private sector as an engine of growth.

- Minister Sinnoqrot is also a very prominent Palestinian businessman who provides a rare opportunity to influence the Palestinian government and economy. If he proceeds with the reform and transparency agenda he has started, it will significantly improve prospects for Palestinian economic development and international integration. More important, it will serve the broader interests of the US government in that Palestinian economic institutions will be more easily tracked and capable of generating income and job expansion.
  - We consider Mr. Sonnoqrot's emphasis on good economic governance, particularly transparency, promising for the emerging Palestinian government. We are keenly mindful of any association with Hamas, or any other organization with terrorist links that run counter to US interests, and will be alert to any changes in his agenda. If Mr. Sonnoqrot does indeed proceed with the reform and transparency agenda he has suggested, it will significantly improve prospects for Palestinian economic development and international integration. More important, it will serve the broader interests of the US government in that Palestinian economic institutions will be more easily tracked and capable of generating income and job expansion.
  - No US government resources will fall under the authority of Mr. Sonnoqrot's ministry. Furthermore, we will scrutinize very closely the progress of his ministry in achieving the laudable goals he espouses. Building transparency and institutions of good governance is easily monitored. Mr. Sonnoqrot is a successful Palestinian businessman, one of few who is capable of delivering substantive achievements that lead to a peaceful Israeli neighbor.
  - Note that he was interviewed by the Treasury department. This was reported in cable traffic: Jerusalem 01127.
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**Opening Statement**  
**Honorable Dan Burton**  
**Committee on International Relations**  
**Subcommittee on the Middle East and Central Asia**  
**Hearing: "U.S. Policy Toward the Palestinians in the Post-Arafat Era"**  
**Date: March 9, 2005**

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Ms. Chairman, thank you for convening this important hearing regarding U.S.-Palestinian relations in the Post-Arafat Era. The Israeli-Palestinian conflict is one of the most important and perplexing foreign policy problems confronting the United States and the world. In fact, it is frequently cited by Al Qaeda and its militant Islamist cohorts as one of the central justifications for their hatred of America. I believe that the problems in the Middle East are really far broader than the Israeli-Palestinian conflict. In fact, the conflict tends to distract attention from many of these problems, and resolving the conflict will not make the problems disappear. Nevertheless, ending the Israeli-Palestinian conflict is a critical piece of the Middle East puzzle.

The death of Yasser Arafat may perhaps be a watershed movement in the quest for peace. Despite the Oslo Accords, the historic hand-shake on the White House lawn, and the Nobel Prize, Yasser Arafat was not an agent of peace; he was a skilled master of doublespeak, mouthing platitudes about peace with Israel in English and exhorting murder and violence against Israelis in Arabic. Under Arafat there was only deadlock and terror, and I completely agreed with the Administration's efforts to discontinue any dialogue with him. Now that Arafat is gone, there is a unique opportunity for peace; opportunity for the potential creation of a Palestinian state that would live side by side with Israel, and opportunity for Israel to enjoy peaceable relations with all of its neighbors within secure and recognized borders.

The reason these long-elusive Mideast goals are now thought to be truly in hand is because Mahmoud Abbas (a.k.a. Abu Mazen) - Yasser Arafat's lieutenant of 40 years - is now the elected President of the Palestinian Authority, and the theory is that President Abbas wants to make peace with Israel. There is just one potential problem with this theory - it may bear little, if any, relation to reality.

While it is true that Mahmoud Abbas has from time to time expressed his opposition to the use of violence against Israeli civilians, so did Yasser Arafat. And, as with Arafat, such statements were typically made in English for the clear benefit of Western and Israeli audiences. However, like his mentor, it is my understanding that President Abbas has made clear in Arabic that he is not opposed to the use of violence per se, just at such times when violence interferes with the stratagem of inducing Israel to allow the creation of a Palestinian state.

In English and Arabic, Mr. Abbas has made it clear he won't crack down on Hamas, the radical Islamic movement that has perpetrated numerous terrorist attacks against Israelis, including many of the most horrific suicide bombings. It seems to me that without enacting long-overdue Palestinian reforms, making an irreversible break with Arafat's

legacy of terrorism and treachery, taking on Hamas and other militants, including many within his own Fatah faction, and ending the double-speak habits of past Palestinian leaders, how can President Abbas be considered a true and reliable partner for peace?

Nevertheless, President Bush has requested \$350 million in assistance for the Palestinians as an important signal that he believes President Abbas can be a serious partner in the search for peace between Israelis and Palestinians. I share the President's vision of Israel and Palestine living side-by-side in peace; and I agree that we must be willing to back up that vision with U.S. assistance. But, President Ronald Reagan was fond of the old expression "fool me once, shame on you. Fool me twice, shame on me," and I sincerely hope that the initial enthusiasm for President Abbas does not ultimately turn into a "shame on us" situation.

Consequently, I believe we should take a cautious and patient approach to the current round of Israeli-Palestinian peacemaking. Before we write an unprecedented check to the Palestinian Authority, we should see the Palestinian Leadership take unambiguous responsibility for ending violence and incitements to violence. Furthermore, we should either consider providing our aid in installments linked to the Palestinians fulfilling their commitments under the Road Map, or consider reducing future financial assistance to the Palestinian Authority if the Palestinian Authority continues to fail to control groups like Hamas and Islamic Jihad, whose goal is to destroy both Israel and the peace process.

I do not want to miss a true opportunity for peace but I would be uncomfortable giving taxpayers' money to the Palestinians without serious assurances that this money is going to go towards improving the lives of the Palestinian people and not be used for terrorist attacks, incitement to violence, or expanding the global terrorist infrastructure.

Once again Ms. Chairman, I thank you for holding this important and timely hearing. I look forward to hearing from the witnesses and hope -- by the day's end -- that we will have a better understanding of how best to move forward in our dealings with the Palestinian Authority.